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ISSN 1180-4386

Legislative Assembly
of Ontario

First Session, 36th Parliament

Assemblée législative
de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Thursday 25 September 1997

Journal des débats (Hansard)

Jeudi 25 septembre 1997

Standing committee on finance and economic affairs

Subcommittee report

Comité permanent des finances et des affaires économiques

Rapport du sous-comité

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Published by the Legislative Assembly of Ontario

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Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 25 September 1997

Jeudi 25 septembre 1997

The committee met at 1004 in committee room 2.

SUBCOMMITTEE REPORT

The Vice-Chair (Mr Wayne Wettlaufer): We'll call the meeting of the standing committee on finance and economic affairs to order. We're here to consider the report of the subcommittee on committee business which you have in front of you:

"Your subcommittee met on Wednesday 24 September 1997 for the purpose of organization on Bill 140, An Act to establish the Financial Services Commission of Ontario and to make complementary amendments to other statutes, and has agreed to recommend:

"That one day be allotted to the consideration of Bill 140, and that public hearings be held for a maximum total of two hours to be followed by clause-by-clause consideration of the bill."

Any comments or suggestions?

Mr Gerry Phillips (Scarborough-Agincourt): I want this part of the public record, that the subcommittee met yesterday and we were told by the government representative, to use his language, that we were going to deal with clause-by-clause today, there would be no opportunity for public input into it, and that's just the way it was.

The reason I raise this is that the government has a majority and the government can impose its will on us. I got elected to represent the public and I deeply resent what took place yesterday at the subcommittee. If you want to operate that way, which seems to be a pattern, I can understand that, but we've tried to be reasonable on this committee.

I found it offensive to be told yesterday that the public were not going to have a chance to participate in this. We were told at the conclusion of yesterday's meeting that the government would be defeating this and moving its own motion and we would deal clause by clause with this bill this morning. Subsequently, I heard from the government representative that I gather they're prepared to support this motion now.

I just found the tone yesterday unacceptable. If it's the way the government wants to operate, and I think it's a pattern, I'm just saying that is not what the public expect from their duly elected representatives. I wanted that on the public record. As I say, I found yesterday a particularly troubling matter.

I gather we are going to proceed and there will be two hours for the public to have some input. This is what we're here for. We're not here to impose the will of one party; we're here to represent the people.

Mr Gilles Pouliot (Lake Nipigon): Following what my friend and colleague Mr Phillips has mentioned, I thought about what took place yesterday, and Mr Phillips rightly mentions the tone. What we're attempting to do is make sure that the consultative process is alive and well, that democracy must never become or be treated as Democracy Inc. I don't see it listed on any exchange this morning, sir. It's the essence of the system.

I certainly readily acquiesce to the consideration of the government, "That one day be allotted to the consideration of Bill 140, and that public hearings be held for a maximum total of two hours to be followed by clause-by-clause consideration of the bill." Suffice it to say in terms of our party, we're pleased with that. That's all that was asked for, and if this had been conveyed at the very beginning, there would have been no need to retreat and to fortify our positions.

This government, this regime, has a tradition, and it's very vivid — you see it almost every day, Mr Chair; in fact you are part of that brigade, part of that team — where when it comes to democracy, they know best, they shall dictate. It's okay if you're afraid, but when you refuse to fold and you stand up, that kind of attitude leaves a legacy and it vexes, it hurts people.

I couldn't agree more with Mr Phillips. As a matter of record, I would like to commend him, because he stood up and consequently we are getting everybody's way, which is best, by way of consultation.

Mr Monte Kwinter (Wilson Heights): I think this is absolutely critical. I spoke to this bill in the House and I got the impression that the thrust of the government is to make it easier for these various institutions that are going to be covered by the Financial Services Commission to operate more efficiently, to cut the red tape and to try to do things for them.

The point I was making, as a former Minister of Financial Institutions, is that all the particular commissions that are being merged into the Financial Services Commission are consumer protection commissions. That's the reason for them, to protect consumers so their moneys don't get dissipated in loan and trust companies or in credit unions or any of these things.

All this legislation and all the various commissions that superseded this new one are consumer protection commissions, and it's imperative that consumers at least — I say consumers; that doesn't necessarily mean just the public, but the corporations, whoever — have some say. It can't just be done in isolation. You can't do it and say: "This is what it's going to be. We think this is the way to go."

Surely, to have a couple of hours so those people who will be impacted by this legislation have a chance to comment on it and make some suggestions that may be very valid is critical. It's unfortunate that it's just two hours, but if that's the wish, so be it. But to do it without any input I think is a mistake.

The Vice-Chair: Any other suggestions or comments? If not, I will put the question. All in favour of the report of the subcommittee? It's carried unanimously.

We have before us a list of those delegations who wish to appear. Two hours would allow each of the delegations 30 minutes. Any suggestions on that?

Mr Phillips: I think that would be fine. We agreed we would take two hours, and if there were four groups, we would divide it in four. I gather we would meet next Thursday at 10 to deal with them, and then meet in the afternoon to deal with clause-by-clause.

The Vice-Chair: Agreed? Agreed.

The deadline for amendments would also be next Thursday at 1 o'clock, October 2. We will adjourn the meeting until next Thursday.

The committee adjourned at 1012.

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ISSN 1180-4386

Legislative Assembly of Ontario

First Session, 36th Parliament

Assemblée législative de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Thursday 2 October 1997

Journal des débats (Hansard)

Jeudi 2 octobre 1997

Standing committee on finance and economic affairs

Financial Services Commission of Ontario Act, 1997

Comité permanent des finances et des affaires économiques

Loi de 1997 sur la commission des services financiers de l'Ontario

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 2 October 1997

Jeudi 2 octobre 1997

The committee met at 1004 in room 151.

FINANCIAL SERVICES COMMISSION OF ONTARIO ACT, 1997

LOI DE 1997 SUR LA COMMISSION DES SERVICES FINANCIERS DE L'ONTARIO

Consideration of Bill 140, An Act to establish the Financial Services Commission of Ontario and to make complementary amendments to other statutes / Projet de loi 140, Loi créant la Commission des services financiers de l'Ontario et apportant des modifications complémentaires à d'autres lois.

CREDIT UNION CENTRAL OF ONTARIO

The Chair (Mr Terence H. Young): I'll call this meeting to order. We're here to hear from delegations on Bill 140, An Act to establish the Financial Services Commission of Ontario and to make complementary amendments to other statutes. Our first delegation today is from the Credit Union Central of Ontario. Good morning. You have half an hour to use as you wish.

Mr David Agnew: Thank you very much, Mr Chair, and I want to thank the committee for this opportunity to appear. I'm David Agnew, and this is Lorrie McKee sitting beside me, from the Credit Union Central of Ontario. We appear this morning on behalf of our approximately 340 member credit unions, our 5,000 employees in the credit unions, our 5,000 volunteers who serve on the boards of directors of our credit unions and the nearly one million Ontarians who are members of our credit unions.

You have had distributed to you a brief from us, and appended to it are some amendments. It's a very brief brief. We realize that time is of the essence not just this morning but for this bill, so we want to be very pithy in our comments. Lorrie will follow me with some details in terms of the amendments we're proposing and some other issues we raise.

I just wanted to underline to you that Bill 140 is important to us because everything the government does affects our ability to compete. This is a marketplace and an industry and a sector which is undergoing massive, rapid change. I don't have to tell you that the banks are getting bigger, the trust industry, with one notable exception, has virtually disappeared and the insurance industry is consolidating. We used to boast that we were the real alternative to the banks. It's now becoming a truism that we're the only alternative to the banks, given what's happening in the industry. Our strength is that we're not the banks. That's part of our unique market niche and certainly our competitive advantage, but of course in the marketplace we're dealing in, with the need for economies of scale and massive investments, it's also somewhat of a disadvantage not to be of that size.

Our bread-and-butter activity, taking deposits and making loans, is disappearing as a lucrative source of revenue for us and all our players. The switch now is into a much broader range of services and products where you make income on fees. For us to be able to compete, we have to keep up with the competition and meet the modern consumer's demands for new services and new products. We think the public interest is served by a domestic alternative to the banks, but we have to be competitive. We look to you, as our regulators and the people who are the fathers of our legislation, to make sure that we continue to be a viable alternative.

We're here in a constructive spirit today. We propose that the committee consider the amendments you have before you. We think those amendments both honour the principles and the objectives of the bill that you unanimously adopted on second reading. We're here in this spirit, to try to improve the bill and work with the bill.

At that, I turn it over to Lorrie to take you through the actual details of the amendments.

Ms Lorrie McKee: As David stated, in principle we're not here to object to the creation of a Financial Services Commission. In fact, many of the goals and objectives of this bill are similar to goals and objectives that our members have. Merging backroom operations, streamlining regulations and reducing government costs are also goals that are shared by the credit union system.

Credit unions are having to seek out similar solutions in order to compete today at all levels: regionally, provincially and nationally. We're having to look for solutions, different ways to operate that result in greater efficiencies and cost savings for consumers. At the same time, the Financial Services Commission provides an opportunity for greater self-regulation of our sector. This is also welcome to us.

The new tribunal is considered to be an improvement over the current situation. Right now perhaps there's not the appropriate separation between regulation and adjudicative functions that is needed.

The new commission does create new fees for our credit unions. Obviously, the introduction of new fees is a concern for our members. There are additional uncertainties around these fees because at this point we don't know what they're going to be. That's going to be set out in regulation.

Our greatest concern, and why we're here today, is to talk about the accountability the commission will have to industry. As a result, the amendments we've put forward are intended to increase the level of accountability the commission has to industry. They don't change the fundamental objectives of the bill, nor do they alter the government's desired outcome, which is to create this new commission.

We've recommended three amendments, and they're appended to our brief. The first amendment is intended to give both financial and operational measures that will give industry an ability to assess the commission's performance. Since industry is going to be financially responsible for 100% of the costs, each regulated sector is going to want to know that it's paying for only its share of the costs. Further, in order for industry to judge whether it's getting good value for its money, industry is going to want a breakdown of how the commission, the tribunal and the ministry are spending its money.

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It's our belief that to truly be accountable, an industry finance commission must be required to report regularly to the industries that are paying its bills. Therefore, we've recommended that the following reports be produced by the commission: regular financial reporting, cost-benefit analysis of regulation, annual value-for-money audits and an annual business plan. As currently drafted, the bill only requires an annual report to the minister, which is tabled in the Legislature, and an annual audit by the Provincial Auditor.

Our BC credit unions have been working under a Financial Services Commission since 1990. In their case they've had continual frustration with the commission that they don't get the reporting they feel they need to adequately judge that they are paying their share of the bills and only their share of the bills.

The purpose of our first amendment, therefore, is to build in some stronger accountability and some mechanisms that will help improve accountability than currently exists in the bill.

The second amendment we've recommended is that an industry-wide advisory committee be established. This committee would be made up of representatives from each of the industries regulated in the commission. It would act as a resource and sounding board for the commission. For example, it would review the financial reports, the fee levels, the assessment formulas and business plans. It's our view that both industry and the commission could benefit from this type of committee by the ongoing dialogue it would create.

The commission is structured to operate on a cost recovery basis. This principle is stated in the explanatory notes to the bill. However, since the bill doesn't see a situation where there would be a surplus or a deficit, it's silent on how a surplus or deficit would be dealt with if one should occur.

Again I look at the British Columbia example. That commission in the last two years has operated with a surplus of almost $2 million. That surplus did not result in lower fees for industry. Rather, it was put into government general revenues. Ontario credit unions want to ensure that the fees to industry will be adjusted so that over a two-year period the commission operates on a revenue-neutral basis. Therefore, we're suggesting the addition of a clause in the bill that will clearly outline how a surplus or deficit would be treated. That's what our third amendment seeks to do.

Also listed in our brief are some other issues. These issues are equally important to us, but we believe these can be dealt with through regulation: the fee structure, the assessment formulas and the timing and implementation, for example. We look forward to those discussions with government as soon as possible.

Much of the discussion we've had around Bill 140 has dealt with the cost savings that government will have as a result of the bill. Yet we see the Financial Services Commission as an opportunity for the ministry, our deposit insurer and ourselves to sit down and talk about their respective roles and responsibilities, to seriously take a look at ways that we can reduce duplication, streamline regulation and reduce red tape. It's our hope that this new commission will provide the starting point to achieve some of these other objectives.

That concludes my comments. David is just going to add a few more points.

Mr Agnew: Our survival, basically, depends on a public policy environment responsive to what we would fairly describe as our unique needs and our unique place in the financial services industry. If you walk in our shoes, in the last, say, three years what we've seen from government is that we've had an imposition of the provincial sales tax on our deposit insurance premiums, we have had more recently the introduction of a new capital tax on a good number of our members, and now we will have the user-pay scheme through the Financial Services Commission. We've had an issue on the table for some time, which is the level of our deposit insurance premiums, and there hasn't been any movement on that.

Again, if you put yourselves in our shoes, this bill, which as Lorrie says we do not object to at all in principle, for us at the moment anyway simply means increased costs. We want to look at the glass half full as opposed to half empty and look at it as an opportunity to put into context some of those broader issues that affect our industry, such as the premiums and some other issues, including the duplicative regulatory regime we're now working under. It offers an opportunity for the Legislature

and the government to reaffirm their commitment to the credit union and the caisses populaires system.

Perhaps the next time we're here we'll be dealing with those kinds of issues and we can be somewhat more enthusiastically supportive. But I just want to repeat that we're here in the spirit of constructive comment on the bill and we ask for your consideration of our amendments. Thank you.

The Chair: Of your allotted time there is approximately 20 minutes left. If you'd like to accept questions from committee members, we'll start with the official opposition. It will be approximately seven minutes of your time.

Mr Gerry Phillips (Scarborough-Agincourt): I appreciate the presentation. The amendments on the surface seem quite sensible and fairly benign. I wonder if the government has had a chance to look at them and whether there's any feeling they would be acceptable to the government.

Mr Bill Grimmett (Muskoka-Georgian Bay): The people presenting here today have met with me earlier in the week and they were kind enough to provide me with the suggested amendments. At this point we feel that the legislation addresses the concerns they have in their suggested amendments, but perhaps when the time comes around to us I'll provide a little longer explanation of our position on each of the amendments.

The second amendment suggests a working group be set up. I understand that in all the discussions between the credit union groups and the ministry this has been agreed to. We feel that the group can be set up in a less formal way than having it in the legislation. Given that the industry is changing from time to time, it probably would be better to have that be flexible.

The other two issues that I think need to be dealt with at length — if you wish, I can deal with them now.

Mr Phillips: If you're not planning to have something on the accountability, I would ask Mr Agnew to give us an indication of this: If we didn't adopt your recommendation on accountability in terms of reports, what sort of reports would you expect to get if the bill isn't modified? Where are the weaknesses, if you will, in the bill that we should be aware of?

Mr Agnew: We take the perspective that this is a new regime and this is a new form of arranging the public service of Ontario and we applaud those kinds of renovations to the system. But I think there's a quid pro quo, which is that if we are to start paying 100% of the freight over time, then we probably are reasonable in expecting something more than what you would get with a normal ministry report, which is an annual report that is tabled nine months after the end of the fiscal year and tends to be relatively shy on details.

We pay taxes already. We are paying for these things through our regular income tax and lots of other things, including PST, but when we start paying directly for these things in addition to the taxes we're paying, then I think we're entitled to a little more detail and a little more say in exactly how the commission is arranging its affairs.

The value-for-money is very important to us, because all a sudden we're going to be paying for things we didn't pay for before, and things that perhaps we didn't think were all that necessary and perhaps a little irksome we suddenly have to pay the bill for now. That's a different kettle of fish.

Mr Phillips: Have you any indication of what the total cost might be to the credit unions for the commission?

Mr Agnew: No, we don't. It's even difficult to guess. I want to be very clear. We have had several meetings with the officials and they've been very receptive to our ideas. We think it's prudent to codify them because, as one learns in life, governments change and people change and what was somebody's commitment may not be the next person's commitment. That is why we're trying to codify them. For us it's the world of the unknown, and that is partly why, to get back to the accountability measures, we want that kind of detail.

I know from some experience that it's very difficult sometimes to segment the cost of government into particular areas. We could be looking at bills that we're not sure are right on the money. I think we have to have some ability to get in there and really look at the details.

Mr Phillips: You mention under "Additional Issues" the cross-subsidization of costs. I am familiar with this. I think in the trust industry at one time, maybe 10 years ago, there were significant costs incurred because of litigation going on, considerable legal fees and accounting fees. Is that what you're suggesting under "Additional Issues," that the commission should prohibit the cross-subsidization of costs where the credit union organization picks up perhaps substantial costs because of some challenges in the pension industry?

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Mr Agnew: Yes, and I'm sure from the other industry's point of view vice versa, although we don't anticipate this to happen in any industry. But absolutely, that's a very important principle to us. We don't necessarily see in all areas a great synergy between some of these areas. We've never had a whole bunch to do with the pension industry, for instance. I think there will be segmentable costs. Those ought to be clearly segmented so we're not cutting each other's grass.

Mr Gilles Pouliot (Lake Nipigon): Mr Agnew and Ms McKee, it's a pleasure. I certainly wish to thank you for extending the courtesy in terms of a briefing prior to appearing in front of the committee. I understand that the same courtesy was extended to all concerned.

You are perhaps aware that the government has decreed that they should save in the neighbourhood of $25 million with Bill 140. The costs associated with these measures are now transferred to the users. We have no access to regulations. We're asked to acquiesce; we're asked to pass the bill. In principle, we're very much in favour of the bill. We were never opposed to streamlining, to cutting through red tape. It's a situation that sits well with us. However, it would be significant and it would help a great deal if we were cognizant of the associated fee structure.

It's like I like the car, but in the final analysis I will have to find out how much the car will cost. It's very important since your margin is not that of the larger corporations, financial institutions, for instance, not that you're from hand to mouth, but the fee structure is very important to you. Question: Under this revision, under Bill 140, how will your life change in the context of the sector? What will change for you when this is passed in the Leg?

Mr Agnew: In and of itself we don't anticipate operational-type changes because the bill as it's written essentially seems the status quo in terms of the regulatory environment. We have an excellent working relationship with the ministry and the officials within it. We don't anticipate that to change. What will change is our bottom line because we will start to pay, we gather, both annual assessments plus fees for services. That's an additional cost to business.

Mr Pouliot: When you mention "fees for services" — and I listened intently to your presentation — if I read the tone correctly, and I may need your help, you've indicated that pension players will keep the commission busy. The pension element is one of the three components in this bill that are being merged. It's a quickly moving world. Do you anticipate in terms of fees that you, as a credit union, will be paying a fee like everyone else, a prorated fee and a user fee, for instance, if you seek recourse at the tribunal vis-à-vis pensions? It's not likely to happen to you, but it will happen to others. Who's going to pick up that bill? Do you expect to pick up the bill?

Mr Agnew: I know it's the government's intention to segment the cost between the industries. I think the scheme is, and these are subject to conversations — we have been assured up and down and we certainly have no problem in accepting the assurance that we will be consulted on the actual setting of those fees and the transition period. But we would anticipate two kinds of things that we would be paying: an annual assessment, and then presumably if you never have to call the commission you would pay no other fees, except that the ministry continues to do examinations, on a regular schedule, of all credit unions. That's an example of the kind of thing we hope this bill gives us the opportunity to examine: whether in the current environment an examination by the ministry is necessary when we're already examined by our deposit insurer on a regular basis, in fact on a more regular basis than we are by the ministry.

That's the kind of thing where we would hope for an ability on an ongoing basis to talk to government, and through the advisory committee that we're suggesting continue to go back to the operations of the government and suggest things that could change. Some of these things require legislation, but some of them don't. I think there are real opportunities for efficiencies.

Mr Pouliot: On these matters, again, we're supporting Bill 140. I don't find the government of the day, those people there, difficult to deal with. I find them, in these contexts, somewhat accommodating. Yet I must ask you this, Mr Agnew. You're not a big player in the overall scheme. Perhaps it's unintended — I don't believe they would go that far; it would serve no purpose here — but could it be that once you read the regulations, one would come away with the impression that the government has conducted a subtle attack on credit unions?

Mr Agnew: I don't think that —

Mr Pouliot: I see this in disproportionate fees, if you wish.

Mr Agnew: I don't think for a moment that's the intention. We also support the bill in principle and we have no problem with the idea of user-pay — that's certainly the way the world is going — as long as there's a quid pro quo, which is that we are allowed to do more self-regulation, that we have a very hard look at areas of duplication and overlap and red tape and things with which it is not necessary to go to the commission and have them do a service for a fee. I would hope that those are the kinds of opportunities that are afforded to us.

Mr Pouliot: When all is said and done — a dollar is a dollar — for your industry this is a new tax, is it not?

Mr Agnew: It's a new assessment and a new fee schedule. It's a new cost —

Mr Pouliot: Let's not play with words. I need your help here. This is a new tax.

Mr Jim Brown (Scarborough West): He's trying to help.

Mr Agnew: Yes, he certainly is. He's always been helpful, in my recollection. He's been very helpful.

The Chair: Unfortunately, your time is up. We'll have to go to the government's side.

Mr Grimmett: If I could just take a couple minutes to address — I know some of my colleagues have questions — the suggested amendments. I agree with Mr Phillips that the suggestions are very practical. In our discussions yesterday or the day before I indicated that I think they are very helpful suggestions on how your industry wishes to deal with the ministry. I know from the discussions that the ministry has had with the credit unions over the past year and a half that these issues have been consistently brought up by you.

I'd like to deal with them in reverse order. The third suggested amendment we feel is addressed by section 25 of the bill. It allows assessments to recover expenditures actually incurred. From talking with the ministry people I can assure you that, assuming that the bill is passed and assuming that we are able to achieve some efficiencies and structure the new organization in a way that we can do that, we will then be in a better position to sit down with each industry. At that time we will be in a better position to provide each industry with our estimate of the actual costs of regulating those industries.

I know from the experience that credit unions have had in British Columbia that there's a certain healthy scepticism about knowing how much the cost of regulation is. But I want to assure you that it's our government's intention to let each industry know what the costs are, because we don't feel there should be cross-subsidization. We feel that the bill addresses that issue. We want to make sure that the industries are enthusiastic in the new operation. We feel that section 25 deals with that issue, but you have

my assurance that the issues you raised and the concern the credit union industry has to make sure they're not cross-subsidizing another sector we're taking very seriously.

1030

The issue of setting up a working committee: We feel it's in the best interests of both the government and the industry to have a flexible situation. I think the ministry has committed to setting up such a group. Probably it would be better if that group were in place sooner rather than later, but we don't feel it needs to be in the legislation, where it would lack flexibility.

The first suggestion you have about accountability, and I know that your industry wants us to set up as efficient an operation as possible — is it not possible that the requirement of quarterly reporting would in itself add a great deal of cost to the operation of the commission? Remember, those costs are going to be recovered from the sector that incurs them.

Mr Agnew: I appreciate that nothing is ever free in this world, but certainly in our business, and I think in virtually every business, it would be unusual for an entity, an institution, not to report quarterly. That's certainly what we do. We are required to do it by DICO. We as Central do it to our members quarterly and it's fairly brief and fairly top-line. It's the annual that is the really detailed one. So I would hope that there are sufficient management information systems that would allow that to be fairly automated, actually.

Mr Grimmett: Just quickly, the scope of the bill is to require annual reporting, and that addresses the issue of surplus as well, because if there is surplus in the fees or assessments to the industry, they would be adjusted on an annual basis so that surplus wouldn't continue. We think your suggestions are very good and the ministry is going to look at the quarterly reporting issue, but at this point we feel that the annual reporting will give you the kind of information to help you plan for the following year. You can certainly, in your discussions with the ministry as the regime develops, make those suggestions. I think Mr Brown has a question.

Mr Jim Brown: In your preamble, I was so encouraged when you said that you were an alternate source for funding to the banks. You know the banks are making unconscionable profits, nickel and diming individuals with surcharges and bank charges. I think they have probably put more small businesses out of business in the last six or eight years than anyone. So when you said that you're competition for the banks I was really encouraged, although I think in the last 15 years there's only been one new credit union and I, personally, would be concerned about that.

How would this bill limit your ability to grow, to help small and medium-sized enterprises? Would it impair in any way the ability to create new credit unions to increase the source of supply of capital for the small businesses that create all the jobs?

Mr Agnew: Mr Brown, it is, as I said before, a new hit to our net income because this will be another cost of business. To that extent it does impair to that degree, and I'm not going to pretend it's huge. It's another thing, and as I say, it's one more in a series of things that have hit our balance sheet.

One of the things that has to be worked out in the discussions about the assessments and fees, of course, is that there will be a fee for setting up a credit union. There is a fee for amalgamating credit unions, which is sometimes how they remain healthy. Everything we do to try to remain viable and try to remain competitive will now have a fee attached to it.

Mr Jim Brown: There's a fee for setting it up but there has only been one set up in the last 15 years, so that can't be a big problem.

Mr Agnew: But there's certainly a lot of amalgamation activity going on. Name change, all sorts of things will now suddenly have a fee attached to them. Again these are just another thing you have to take into consideration when you're putting together a business plan.

The Chair: Mr Agnew and Ms McKee, your time is up. Thank you very much for coming and for answering questions as well.

CANADIAN CO-OPERATIVE ASSOCIATION

CONSEIL DE LA COOPÉRATION DE L'ONTARIO

The Chair: I ask the Canadian Cooperative Association to please come forward and have a seat at the desk. You might find it helpful to accept questions after initial presentation but it's entirely up to you. I wonder if just before you begin speaking, for the record, you would introduce the people at the table.

Mr Claude Gauthier: My name is Claude Gauthier. I have been a resident of the Mississauga area for the last two years. Before that I was a farmer in Timiskaming in northern Ontario. I've been involved with the agricultural cooperative world for a number of years. I will be presenting a submission today on behalf of CCA and the Conseil de la Coopération de l'Ontario. With me are Judy Goldie, who is the manager of the Ontario region of CCA; and Brian Iler, from the legal firm of Iler Campbell Klippenstein, a Toronto firm that specializes in helping cooperatives from a legal standpoint.

Mr Chairman and members of the committee, I am pleased to have the opportunity to address your committee on behalf of the Canadian Co-operative Association, Ontario region, which we refer to as CCA, and the Conseil de la Coopération de l'Ontario, which we refer to as CCO, to raise our concerns about the Financial Services Commission of Ontario Act, Bill 140.

As a background, the Canadian Co-operative Association is an umbrella organization that supports the growth of cooperative enterprise in Canada. The Ontario region represents the shared interests of over two million members of our cooperatives and credit unions in the province. Membership in our association is quite diverse, from established cooperatives like The Co-operators Group,

Growmark and Gay Lea Foods to much smaller federations representing not-for-profit child care and housing.

Le mandat du Conseil de la Coopération de l'Ontario est de favoriser la création de coopératives de façon à encourager le développement socioéconomique dans nos milieux franco-ontariens. Le CCO regroupe depuis 32 ans environ 186 coopératives en Ontario. Ces entreprises représentent plus de 300 000 membres. En 1996, un peu plus de 3500 individus étaient engagés dans le développement de ces entreprises et géraient un actif d'environ 3 $ milliards.

A list of our respective members is appended to this submission. I am, however, speaking today about issues that affect non-financial co-ops, so when I refer to co-ops in this brief I am excluding credit unions, caisses populaires and co-ops that deliver insurance products. In Ontario there are approximately 1,400 co-ops, which represent in excess of $4.1 billion in assets, and I'm talking about the non-financial co-ops.

As you probably know, cooperatives are community-based business ventures that are owned and controlled in the community by the people they serve. They are democratically controlled, with each member having a single vote regardless of his or her investment in the cooperative. Investors in the co-op are its member-owners and users of the cooperatives services, not investors primarily looking for financial returns. Non-members who purchase securities are motivated by a wish to support the goals and objectives of a local business venture, not a desire to achieve speculative gains. While co-ops are organized in a distinctive way, we compete directly with other types of businesses in the same economic sector. Many of these other businesses are not subject to regulation to the degree that we have been operating under or looking at under the financial commission.

The Co-operative Corporations Act establishes the basic framework within which all Ontario co-ops must operate. Up until the creation of the Ministry of Financial Institutions in the late 1980s, co-ops came together with credit unions and caisses populaires under the Ministry of Consumer and Commercial Relations. Regulatory responsibilities for both credit unions and cooperatives were then shifted to what is now the Ministry of Finance. Since both share common values, principles and democratic structure, the government of the day felt that knowledge and an understanding of cooperatives by government staff were required for effective service.

However, co-ops are obviously quite different as businesses in comparison to the other sectors currently regulated by the Ministry of Finance, those same sectors that will now fall under the jurisdiction of the proposed Financial Services Commission. Maintaining our identity and, more importantly, a regulatory regime that is appropriate for a business as opposed to a highly regulated financial institution is not a new issue for us but one that has been brought again to the forefront by the introduction of the Financial Services Commission of Ontario Act. For example, the need to have more flexibility in the way we do business was the key reason we sought changes to the Co-operative Corporations Act in 1994.

1040

I'd like to address a few key issues. I'll start with the assessments of costs and fee structure.

This aspect of the bill will have a significant impact on the cost of doing business for co-ops, and is the most serious issue for our system. The commission will have the power to levy an assessment on the sectors. CCA and CCO do not believe that an assessment is appropriate to levy against co-ops.

Unlike the financial services sectors that are heavily regulated, co-ops have little and in some cases no ongoing relationship with the ministry. Most not-for-profit and small co-ops only deal with the ministry on incorporations and bylaw changes. Given the nature of our business relationship with the ministry, a sector-wide assessment is not justified. Other forms of businesses and not-for-profit organizations do not have that type of levy and it would be a competitive disadvantage to incorporate as a co-op.

I just might make a point to talk about the group I work with in my day-to-day life through the Growmark organization, which is the Ontario agricultural supply cooperatives. Most of our cooperatives are competing against enterprises that are totally not subject to regulations. You've probably heard in business about the 20-80 rule, where 20% of your business generates 80% of your income. If we look at our membership — and I'm talking about the member cooperatives under our organization — 20% of our co-ops probably generate 80% of the income produced by those cooperatives in their communities.

What I'm saying is a lot of the co-ops, the remaining 80%, are basically operating on a break-even, constant approach. The assessment that is being projected or contemplated by this act would probably jeopardize some of those organizations. At least it would reduce their ability to operate in their communities and fulfil the mandate to their local communities.

We could also talk about the fact that within the group that we're talking about here today, the child care cooperative section, which is a not-for-profit group, is operated basically by volunteers. It's the best example of self-help groups that we have out there. Levies in this case would not be in the public interest.

My point is that the majority of the co-ops in the non-financial sector, a very large majority, would be very heartily affected by this possibility of assessment of fees down the road, and this will have a very real chilling effect on the degree to which people in communities would contemplate, appreciate and organize under the cooperative structure.

Therefore, the CCA and CCO recommend that subsection 25(1) of Bill 140, that permits the charging of an assessment, be amended to exempt co-ops incorporated under the Co-operative Corporations Act from assessments.

To date, fees for services to co-ops have been modest and often set in relation to those fees charged to other forms of business. The co-op system is concerned that the

resulting fees do not represent a significant barrier to co-op startups and raising capital, and that they must not exceed those fees charged to other forms of business for similar activities.

I talked to the vast majority of our non-financial sector being organized basically on a break-even basis. We also need to recognize that they represent a very small piece of the economic group being regulated under this commission and an assessment would be creating hardship.

The commission has been set up to provide regulatory services to the financial sectors. Much of the structure to be put in place will not serve co-ops. Our system, for example, is excluded from the Financial Services Tribunal. The setting of overheads in any cost recovery process must be transparent enough to ensure that the amount fairly represents the usage of ministry services. We would be pleased to participate in an all-sector committee to look at fair distribution of costs.

I'd like to speak for a moment about co-op regulation and the regulatory framework. The co-op system has been working with the Ministry of Finance to streamline the regulatory process. This work was initiated because of bottlenecks emerging in the system and the opportunity offered by the ministry to participate in the red tape review process. This work has been productive. However, given the mandate of the red tape review, these changes have been incremental. We will require a significant change in this regime if we are to approach an affordable fee structure that also achieves full cost recovery.

At a recent meeting with Deputy Minister of Finance Dina Palozzi and Ross Peebles, the assistant deputy minister for deposit institutions, there was agreement to establish an advisory committee to look comprehensively at the regulatory process, with the objective of recommending ways to achieve a more effective and efficient process. We appreciate the ministry's willingness to commit to this work and ask for the government's support for this initiative, including a flexible time frame for requiring cost recovery should the recommendations require changes to the Co-operative Corporations Act.

The length of time to process offering statements continues to be a concern for our members. As the sector finances more of these services, we want to ensure there are cost-benefit analyses of these regulations and agreed-to performance standards for services.

I'd like to speak to the issue of maintaining effective co-op services. Clearly, as you understand by now, co-ops in our group do not offer financial services like all the other industries that fall within the commission's jurisdiction.

We continue to represent a very small part of the ministry's work. While this was also true within the current structure, during a period of dramatic change the interests of our system and the unique services we require from the government could get overlooked. The co-op system continues to need civil servants with specific expertise and a consistent approach to our work. Establishing an ongoing advisory committee would ensure good communication between the commission and the co-op system.

In conclusion, CCA and CCO recommend the following:

(1) That subsection 25(1) of the financial services act be amended to explicitly exempt from assessments co-ops incorporated under the Co-operative Corporations Act;

(2) That fees applied to services for co-ops set by regulation shall not exceed those charged to other forms of businesses for similar types of activities;

(3) That an all-sector committee be established to review the costs of the commission to ensure transparency in allocating costs;

(4) That an ongoing co-op advisory committee be established to ensure a smooth transition and implementation process; and

(5) That this advisory committee work with the Ministry of Finance to examine the regulatory framework for co-ops, with a view to making recommendations that will ensure an effective and efficient regulatory system. This work shall be completed and implemented before considering full cost recovery through fees for service for co-ops.

Mr Chairman, that's the extent of our written submission.

The Chair: Would you be prepared to accept oral questions now?

Mr Gauthier: Sure, and we will share, if you don't mind.

The Chair: Absolutely. Approximately 15 minutes, which would leave about five minutes per caucus. We'll ask the official opposition to begin.

Mr Phillips: I don't mind doing that. I'm sort of accustomed to alternating.

The Chair: I'm sorry. Yes, by all means; the NDP will start.

Mr Pouliot: Mr Chair, we understand that since we're also with the opposition, official or not, we tend to agree on the same subject matter, which is mainly to support the government, whenever possible, on legislation. For a second I thought Mr Kormos, who is one of my distinguished colleagues, was to join me, but he's a little shy and bashful. He went out with his class, but had a good chance to say hello to David.

What part of northern Ontario are you from, Mr Gauthier?

Mr Gauthier: Timiskaming, New Liskeard, Earlton.

Mr Pouliot: I know the area quite well. I live in Manitouwadge — not Manitoulin; Manitouwadge. I've been there for 32 years. It's my pleasure indeed.

You seem to be concerned — you're the second presenter, after the Credit Union Central — about the fee. In fact, in your conclusion you focus on subsection 25(1), that you'd be "explicitly exempt from assessments." You're not talking about the whole group; you're talking about some part of the group. What is your rationale that some would be exempt from assessment?

1050

Mr Gauthier: The rationale, and I tried to explain that in our brief, is that the vast majority of this non-financial services co-op group — and there are exceptions — are basically operating on a non-profit approach. A lot of

them are run by a group of volunteers who choose to use the cooperative incorporation features to organize their work and offer their services. They are operated by community-involved people. These organizations are set up and organized to serve the members of their community.

Indirectly, we are asking these volunteers to put more dollars on the table so they have the ability to offer their community services that are basically required, for two reasons: One is to challenge an unfair supply proposal in the community, and the other would be to ensure that a minimum standard of living exists for those citizens.

Mr Pouliot: Mr Gauthier, every tabled piece of legislation has a compendium. You go to the intent and spirit, you read the written word, the legislation itself, and then there are the regulations, which regulate the oxygen of the legislation. I don't believe, Mr Chair and Mr Parliamentary Assistant, that the intent was to oblige, to mandate people who are under an umbrella of non-profit to pay a fee. This would penalize people.

Sometimes, and I am pleased that you have mentioned it, people fall through the cracks in the system and they end up paying. This would run contrary to the good deeds they're providing. If they're non-profit, I would assume the balance sheet would show that they have no money except that for running current-day affairs. This is not profit-motivated. For them to seek services under the auspices, the umbrella of the commission is highly unlikely. You don't occupy much time.

As a good Samaritan, the province has the duty to look favourably at this reasonable request, to say, "If you're non-profit, it will not change the spirit, it will not jeopardize the legislation, it will not change its intent." You can still go forward and pass it, but in this case all it would require is a two-line amendment. I would certainly favour and support that kind of amendment, should the government wish to proceed with it. That point is very well taken.

That's all I have, Mr Chair.

The Chair: We'll move to the government party.

Mr Grimmett: I'll allow some time for my colleagues to ask questions, but I did want to address the suggestions that you made. I do want to acknowledge that Judy Goldie was good enough to speak to me before the presentation, earlier in the week, and we had a chance to talk about the issues. I think they're very clearly presented in your brief.

The issue of section 25(1), if I can just give a brief overview of the approach the government sees for your sector under the act — you indicated that the ministry has committed to meeting with you to try and work towards efficiencies in the regulation of your industry. You make the point, "We continue to represent a very small part of the ministry's work," and I think that's correct. The scheme of the act is to try and find efficiencies, because it is a cost recovery approach, while at the same time — Mr Kwinter has made the point several times — maintaining the necessary consumer protection that all of the industry must operate under.

What we see happening with your sector is that your working group will sit down with the ministry, if we're able to get the legislation passed, and once we have it in place, we can find out the exact cost that your industry would have and you would have the opportunity to provide the ministry with advice on how your portion would be paid. If you wish to do it entirely with fees, that might be possible, but it may also be possible that assessments would be necessary.

We feel it's necessary to include all the regulated industries under section 25, but as you can see from section 25, we're quite prepared to have unique methods of recovering the costs that work best with each industry.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. When you looked at section 25, if you had looked under subsection(3), there are some variations in there. Like the parliamentary assistant is saying, there are some variations in there that you can meet and there is a possibility you will fall away from some of those, in the manner in which you will form part of that sector. I think there's room in there for you people to still exist without having too heavy a fee structure.

Mr Brian Iler: Could I respond? With respect, we disagree. We believe co-ops should be exempt entirely from the prospect or the possibility of assessments. That is because co-ops are not like the other sectors which you do regulate and include in this bill. Our competitors are not other trust companies or other insurance companies or other pension funds. Our competitors are business corporations and our competitors are not-for-profit corporations.

Co-ops span the spectrum, from business corporations over here to non-profit corporations over here. If, as a lawyer, a new client comes to me and says, "I'd like to incorporate as a business but I'm looking at the co-op model and I'm looking at the business model," with the prospect of an assessment you can be very sure that the recommendation is to choose the business model and not the co-op model.

Similarly with the non-profit, if I want to set up an organization which is going to run on non-profit principles and I'm looking at the co-op model and I'm looking at the non-profit model, you can be very sure, given the prospect of an assessment only on co-ops — not on business corporations and not on not-for-profit corporations — that the recommendation will be that the not-for-profit corporation be utilized. Similarly, for existing cooperatives, the choice for existing co-ops facing the prospect of any assessment will be a conversion to either a business corporation or to a not-for-profit corporation.

What it leaves co-ops with is unfair treatment, an unequal playing field and the prospect of the sector disintegrating in the sense that the very clear definition we have in the Co-operative Corporations Act will become muddy, not used, and we'll see a disappearance of the concept of the cooperative in the province.

Mr Grimmett: Can I ask you one further question, Mr Iler?

Mr Iler: Yes.

Mr Grimmett: Do you see that the industry could provide the ministry with cost recovery exclusive of assessments?

Mr Iler: We haven't seen figures from the ministry as to what the costs are, so it's very difficult to answer that question. We believe there are considerable efficiencies to be achieved through discussions with the ministry and changes to the act, and we've had discussions in the past about these. We're not convinced that's possible. It's certainly something we're attracted to. I think everyone likes to pay their way, but there are aspects of co-op regulation which are in the public interest which are not necessarily something the sector itself should bear.

If we're concerned about the integrity of the model of a cooperative, which is what regulation in some ways is about, the public guardian and trustee regulates charities. We don't look to charities to fund that kind of public interest of maintaining charitable organizations as integral models. You want to look at co-ops in that same way.

Mr Grimmett: I just wanted to make the point, when you're talking about your competitors, would they not be subject to regulation by the Ontario Securities Commission if they're business corporations?

Mr Iler: Yes, if they're offering securities to the public.

The Chair: We'll move to the Liberal Party now, please.

1100

Mr Phillips: The big point I think you're making — I want to make sure I've got it — is that this bill is designed to deal with the regulated sectors, consisting of insurance, pension and deposit institution sectors in Ontario, and this bill is vacuuming you into that, you being Gay Lea Foods, the Co-operative Housing Federation of Canada, the Ontario Natural Food Co-op, the Ontario Worker Co-op Federation — there are a whole bunch of businesses and organizations that have absolutely zero to do with insurance, pension or deposit, but you will now be under their umbrella; they will have responsibility for you almost by accident, because the Corporations Act includes Co-operators Group, the insurance company, and the credit union — it does not?

Mr Iler: No, it does not.

Mr Phillips: Is there any logic — and I mean this sincerely; I'm afraid we're making a huge mistake here, where by accident you're going as an appendage to the selling off of the chattels and you will end up an orphan in this place. Have I interpreted it properly?

Mr Iler: In large part you have. We don't fit with the rest of the regulated industries. We're not a regulated industry in that sense. Historically, because credit unions and cooperatives are both founded on the same principles of democratic control by members, we have been administered or regulated by the same civil servants.

When the Ministry of Financial Institutions was created, it was felt appropriate that we continue to be regulated by civil servants who have had the expertise on credit unions, in terms of the democratic values, as well as co-ops. So we were moved over to financial institutions. We don't belong there. Given the thrust of this bill, it may make sense to move us back to the Ministry of Consumer and Commercial Relations, where we are with non-profit corporations and business corporations, with whom we have more identity, aside from the particular values the co-ops have.

Mr Phillips: I honestly think that is what should happen. I think you're here by mistake, personally. I guess I can't ask the government to comment on that right now, but maybe we can this afternoon.

Mr Bruce Crozier (Essex South): I have a question, but I think you have a comment.

Ms Judy Goldie: Yes. Certainly, we have had this type of discussion among ourselves as to where we belong. We're a very unique form of business enterprise in that we have both social and financial purpose. In preparing and reviewing the legislation, that certainly was one option. We talked about whether we should just be coming and saying, "Let us out."

We do require, as businesses, the services of the ministry in terms of incorporations and also review of offering statements, which is the tool we use as we raise money. So there is a certain regulatory regime that we do require. I guess the choice is to look at the securities commission or where we are now, and we find yet again other anomalies, because the securities commission doesn't deal with business start-ups. So we're in a difficult position in terms of where we actually fit.

It was our conclusion at that point in time that with some adjustments we could continue effectively within the Ministry of Finance. It may be, as we continue to explore the matter with the ministry, we may revisit that question, but at this point we decided not to take the position of saying, "Just exclude us from the commission."

The Chair: There are a couple of minutes left, Mr Crozier, if you want to use them.

Mr Crozier: Just very quickly I want to emphasize what my colleague has said. If you look at the title of the bill, it's to establish the Financial Services Commission; it's in place of the pension commission, the Ontario Insurance Commission and the deposit institutions division in the Ministry of Finance. So clearly I think too it would appear as though you've just been, as Gerry said, vacuumed into this, perhaps by mistake. The time to correct that would be before we get beyond passing the bill itself.

I want to ask, when you had your discussions with the ministry under the co-op regulations and the red tape review, did the discussion come up at any time then, relative to this Bill 140, or were those discussions separate from that?

Ms Goldie: They were prior to the introduction of the bill.

Mr Crozier: So there was no discussion; you weren't aware at all that you were going to be brought into this.

Ms Goldie: That's right.

Mr Crozier: In your business — we need a brief answer — do you deal mostly with your co-op members, or is a significant percentage of your business people who aren't members of the co-op?

Mr Iler: The majority of the volume of the transactions is done with members, by a large margin.

The Chair: Thank you very much. Your time has expired. We appreciate you taking the time to come to the committee and answer our questions.

Mr Iler: Thank you for the opportunity for input.

ASSOCIATION OF CREDIT UNIONS OF ONTARIO

The Chair: I'd like to ask the Association of Credit Unions of Ontario to please come forward and have a seat at the table. Mr Thomas Robins, welcome. You have half an hour. You can use the time as you wish. Many delegations leave some time for questions from committee members, which is helpful, but it's entirely up to you.

Mr Thomas Robins: My name, as you mentioned, is Tom Robins and I'm executive director of the Association of Credit Unions of Ontario. On behalf of my members, I would like to thank you for the opportunity to meet with you this morning to discuss various aspects of Bill 140.

The Association of Credit Unions comprises 18 credit unions, combined assets of $2.6 billion and capital and surplus equal to 7.04% of assets. Our membership includes two of the three largest Ontario credit unions.

The association works with Credit Union Central, our colleagues who you just heard a few moments back, the Fédération des caisses populaires de l'Ontario in Ottawa and l'Alliance des caisses populaires de l'Ontario, based in North Bay and about to merge with the federation in Ottawa. Together, through a coalition, we put forward common positions on matters of concern to the credit unions. As a coalition, we met with the Ministry of Finance to discuss regulatory options in the past and subsequently, just a few weeks ago, our concerns on Bill 140.

As a matter of general policy, the association supports the general direction of Bill 140. Indeed, the bill codifies proposals discussed in the 1970s, the first step of which was taken some years later. That was the creation of the Ministry of Financial Institutions in the mid-1980s under the direction of your colleague, the Honourable Monte Kwinter.

With respect to Bill 140, I've attached for your information a copy of the coalition submission to the Ministry of Finance on Bill 140. To summarize the issues — I know these are in front of you, but I'll read them into the record — we believe that:

To provide effective policy and regulation for Ontario's credit union and caisse populaire system, the government — I'm not talking about the commission here — needs to ensure it has adequate staff resources who understand the sector's unique culture, philosophy and regulatory requirements. That's because at some point, even though the commission is going to be in place, there is going to be a policy branch looking at financial or policy issues coming up.

To ensure commission decisions are based on sound cost-benefit analyses, stronger accountability mechanisms are required. My colleagues from Credit Union Central elaborated on that.

To provide sectoral input on the operations of the commission, an industry advisory committee should be established.

To ensure the continued financial stability of the credit union and caisse populaire system, the industry should be consulted on the fee structure and financial reporting requirements of the commission and tribunal.

To avoid the cross-subsidization of industries regulated by the commission, which could weaken the financial solvency of credit unions and caisses populaires, internal cross-subsidization of industries must be prohibited by regulation. There are provisions within the statute, I believe, to do that.

To maintain financial stability, statutory capital, reserve levels and growth potential, a transition period is required in order for Ontario credit unions and caisses populaires to absorb this new cost of operating. Again, my colleagues from Credit Union Central have elaborated on some of those issues.

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To minimize the potential for the commission to be used as a source of non-tax revenue — and one of the members of the committee did make reference to British Columbia — any surplus should be used to reduce fees and/or overhead assessment costs in future years and not be used for general government revenues. This principle needs to be clearly articulated in the bill. Again, my colleagues have submitted suggestions to the committee.

The creation of a Financial Services Commission should be viewed as an opportunity for the ministry, the Deposit Insurance Corp of Ontario and the industry to review collectively their respective roles and responsibilities to truly reduce duplication and streamline how Ontario credit unions and caisses populaires are regulated. To ensure that each of the regulated industries is appropriately represented on the commission, the appointment process needs to be clarified.

Finally, and again my colleagues from Central have raised this, the cumulative burden of new taxes, higher deposit insurance premiums than our competitors and the creation of the new commission and its associated costs has the potential to hinder our industry's ability to be the true domestic alternative to the banks and trust companies, at least those that remain, and maintain statutory capital and reserve levels and sustain jobs in the Ontario economy. For the record, one staff person has to be released for every $40,000 in additional non-productive costs within the system.

I would like to comment specifically on two issues from the above list: firstly, the extent to which the regulatory regime can be streamlined and regulatory duplication reduced, and with respect to insurance and pension administration, the impact of federal and provincial overlapping jurisdictions minimized.

Credit unions and caisses populaires are now unique in Ontario in that they are regulated by the Ontario government and the Ontario Deposit Insurance Corp. The association is on record with the Ministry of Finance that it would like to see the government, and now the proposed

commission, have a minimal hands-on, day-to-day regulatory regime. Our preference is for the deposit insurer to undertake the regulatory role, delegating these functions as appropriate to the leagues, of which there are two in the association, under the deposit insurer's supervision, with the commission using external auditors to undertake testing on a sample basis to ensure compliance with commission standards. That would save several million dollars because the cost of overhead within a government organization can be significantly higher than just hiring people on an ad hoc basis.

Secondly, the minimization of the costs of regulation through the commission becomes imperative as the ability to maintain profit margins are being eroded not just by meeting the competition from banks and trust companies but by the imposition of additional charges by government and ongoing charges by the deposit insurer.

With respect to credit unions and caisses populaires, regulatory costs per dollar of assets already exceeds those of loan and trust corporations, as our deposit insurance is currently $2.10 per $1,000 of assets, while the insurance levy by the Canada Deposit Insurance Corp is currently $1.67 per $1,000 of assets and is expected to drop to 15 cents per $1,000 within the next three to five years. There will be a phenomenal variation in costs over the next years between credit unions, caisses populaires and our competition, which includes the banks, of course.

On top of those charges, credit unions and caisses populaires are now being taxed on the capital built up under statutory direction. For the record, a number of association members will be paying more in capital tax than current profits. That's if one extrapolates current capital and profits to the year 2002 when the full rate comes in. That will require them to use capital to pay the tax, effectively double taxation. This was raised with the Ministry of Finance but they didn't consider it to be double taxation. This in turn, over time, could cause them to be in non-compliance with both statutory and deposit insurance requirements.

We know what our costs are now, but we really do need to see what the additional costs are going to be, because currently they are covered in our business taxes through the transfers to the current credit unions and corporate services branch. But it is imperative that the costs of the commission allocated to credit unions not put them in a worse financial position than they are today. As my colleagues have noted, regular reporting on costs to those regulated, with an opportunity to provide input, is an essential matter that needs to be incorporated into the legislation.

I know this doesn't come into my brief, but I was listening to the comments by the cooperative sector and I just wanted to make a comment. Until the mid-1970s there was a cooperative services branch which was completely separate from the credit unions branch. They were subsequently merged towards the middle of the 1970s into the current branch, mainly because the business corporations branch didn't want to have cooperatives as part of their normal day-to-day activities. I would also note that they're the ones that are regulated by the cooperative services branch and not financial service corporations.

I understand, at least I know from past talking with Brian Iler, that one of the key issues they have is their offering statements. If they were in the business corporations branch, they would be subject, in all probability, to the requirements of the Ontario Securities Commission, which obviously is a key issue because their requirements are significantly greater than they are for the cooperative services branch under the cooperative services legislation.

Thank you, Mr Chairman and gentlemen, for the opportunity of meeting with you. I would be pleased to answer any questions you may have.

The Chair: Thank you very much, Mr Robins. There are approximately 21 minutes left for questions, which we'll divide evenly between the three parties. We'll start with the government party.

Mr Grimmett: The point you raised about the regulatory scheme and the participation by the credit unions in helping to design it, I understand there have been ongoing discussions between ministry people and your association, as well as the other association we heard earlier representing credit unions. Can you clarify this? I believe in 1994 legislation was introduced that allowed the provincial government to impose assessments on credit unions. Is that correct?

Mr Robins: I couldn't answer that; I wasn't in this position then. I was actually with the Ontario Pension Board.

Mr Grimmett: I believe it's been in legislation since 1994 and the government has not yet moved to deal with that cost-recovery aspect of regulation.

I certainly appreciate your comments and the comments earlier from Credit Union Central of Ontario with respect to possible duplication. I think you're probably aware that our government has certainly taken some pride in trying to seek out where the duplication exists in government operation, so we're certainly interested in hearing your comments on the possible duplication of regulation. But we have to be careful as a government, because all of this legislation still has as its underlying purpose consumer protection. While the Deposit Insurance Corp does have a regulatory role, there are some aspects of the regulatory role that are somewhat different from the Deposit Insurance Corp's operations that would be covered by the Bill 140 type of regulation.

Mr Wayne Wettlaufer (Kitchener): Mr Robins, on page 2 of your submission you raised the point of avoiding cross-subsidization of industries. I wonder if you could elaborate on that.

Mr Robins: One of the concerns we have is that when we have the pensions, insurance and credit unions, and obviously the pension and insurance industries are huge compared with the $13 billion and change that the credit unions have on deposit, the costs of running those two regulatory regimes, particularly the overhead costs, which can't be necessarily allocated on a direct costing basis, if they get out of hand we could end up with the credit union

and caisse populaire system picking up a disproportionate share of those overheads.

The CDIC in Ottawa at one stage was spending money like water on the various regulatory functions, travelling around the country in first class, having expensive dinners and so on and so forth, which all came out. We really want to ensure that these costs just don't get out of hand so that we can maintain viable entities.

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Mr Wettlaufer: I have another question too. You were talking about the uncompetitiveness, if you will, of the deposit insurance rate that you're paying of $2.10 per $1,000 of assets versus the other financial institutions, which are paying $1.67 per $1,000. Until the credit unions appeared this morning, I forgot that somewhere in my past I served as a director of a credit union. It has reared its ugly head this morning, and I say that figuratively speaking because I remember so well that there were credit unions failing at the time that I was a director — ours didn't fail — and we were expected to pony up considerably for those that were failing. I think what I'm trying to point out here is that the reason the rates for deposit insurance for the credit unions is so high is because there have been failures, bad loans and what have you by the credit unions to a greater extent than other financial institutions.

The Deposit Insurance Corporation of Ontario has been running a deficit, significant losses, and they plan to eliminate their deficit in the next five years. Obviously they have to keep their rates high and the financial institutions causing the significant losses to the Deposit Insurance Corporation are the ones that have to pay more. Any comment on that?

Mr Robins: We as an industry fully recognize this particular issue. In fact, I think it's $1.10 or $1 and change, or each $1 of premium, that goes each year to the paydown of the accumulated debt and that's why they're so high. We accept that. We have to accept it because it's a result of the problems that arose with the inverse yield codes way back in the late 1970s and early 1980s. By 1982, you're quite correct, the industry had about $400 billion in assets and $400 million in impairments. So 10% of the assets were impaired and there were effectively several hundred credit unions in serious financial difficulty. I agree, that's the reason for that particular level of premium.

Hopefully it will come down, but the reason I was raising it was we do have that as a cost. It's a recognized cost and what we're trying to avoid obviously, as are all other businesses, whether for profit or not for profit, is to ensure that we know and can control our costs. Because if we don't control those, the yield on the difference between the income and outflow from deposits is insufficient to meet our ongoing operations.

The Chair: We'll move to the Liberal caucus now, please.

Mr Crozier: Good morning, Mr Robins. The parliamentary assistant has mentioned a couple of times that the bottom line for this legislation is consumer protection. I take him at his word. Some who might be more sceptical than I would say that it's really to reduce the government's cost by $25 million. If we can do that, that's fine, but in doing so, if we put an unusual burden on someone else, then I think we have to address that problem.

I want to go back to this cross-subsidization again. Earlier this morning you no doubt heard when Credit Union Central presented. They had an amendment, a recommendation, on how to treat any surplus or deficit. You seemed, through your presentation, to agree to a great extent with them.

One more thing: We heard then that the government said: "We understand what you're saying, but trust us. It'll be taken care of okay and you'll be happy." But wouldn't you feel better as well if the treatment of surplus or deficit were in the legislation and therefore there would be some reasonable assurance that there was no cross-subsidization?

Mr Robins: Yes, that would be our preference, because I think the clearer the direction that is given to any organization set up by, whether it be government — particularly government in this case — there is a need for the ground rules to be established right up front. Otherwise — we saw that with the Power Commission of Ontario — you can go off on tangents and create tens of billions of dollars of debt before there is an ability to get it under control.

The commission is unlikely to run up tens of billions of dollars of debt, but the principle is basically the same. It's always necessary to ensure that the controls are in place before rather than afterwards. Key order principle: Have the controls in place now and not after the dollars have run out the door.

Mr Phillips: Just on accountability — and if you answered this earlier, my apologies —Credit Union Central earlier this morning recommended several reports that they thought would be useful for the commission to prepare. In your remarks you talk about the industry advisory committee. Do you have any comments or suggestions on the reports that they think would be useful?

Mr Robins: I'm sorry?

Mr Phillips: Do you have any comments on the reports that Credit Union Central thought would be useful for accountability: quarterly reports on revenues, expenses, expenditures; an annual report on something on a broader basis? Is that something you're supportive of?

Mr Robins: Yes. As I mentioned right at the beginning, Credit Union Central and the association basically have agreed on all these issues and we fully support the proposals that Central has presented to the committee and to the parliamentary assistant.

Mr Phillips: Fine, okay. I appreciate that. Thank you.

The Chair: We'll move to the NDP caucus, please.

Mr Pouliot: Good morning, Mr Robins. If I were to look at your last quarter or your last fiscal year, credit unions, what kind of a year did you have?

Mr Robins: For the association there was a marginal decline in the asset base. It was just fair. For instance, our largest credit union, which has got just under $1 billion in assets, only made roughly $300,000 in income, primarily

because they've been losing an awful lot of their members through the downsizing, and that's been happening through the industry.

They also had to release a lot of staff, and that's been fairly consistent. I can't speak for Central, but I know it's been consistent through the association. It wasn't a good year; it wasn't a banner year.

Mr Pouliot: You're not mandated to offer a competing range of service, which is lucrative; for instance, insurance brokerage premiums, fees of all sorts charged to industrial consumers, to large pension funds, if you wish, and to individuals.

Mr Robins: Each credit union obviously has a different way of handling it, but there are groups of credit unions that have banded together and are now providing services such as mutual funds. You can't offer insurance directly through a branch, which is very unfortunate. But there are various fee-raising services that are now being provided and, like the banks, it's becoming a greater part of the bottom line, the profit centre, because you can't live on the margin.

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Mr Pouliot: The financial services indexes pretty well around the world have had a year beyond compare. They've done very, very well, thank you. In fact they weigh so heavily on some indexes that anyone who is forced by mandate to play indexes ends up by way of institutional buying with a huge amount of shares from those institutions.

Yet when I look at your presentation I see that "the cumulative burden of new taxes, higher deposit insurance premiums than our competitors and the creation of FSCO and its associated costs has the potential to hinder our industry's ability to be the true domestic alternative to the banks and trust companies" — during a good time, a very good time indeed. Low interest rates attract borrowers.

You don't make all that much money and yet you're telling me that on the $60,000 deposit insurance premium, although no one has ever defaulted, no one has ever lost money, not one deposit —

Mr Robins: That's true.

Mr Pouliot: — has ever lost any money, there is the perception and the reality, that yes, financial institutions do get into difficulty. Hundreds of banks have gone bankrupt in the USA but their structure – they don't have the charter system, heaven forbid. I have a lot of sympathy. You're downsizing. It's pretty bad when you ask the teller that you pay between $19,000 and $21,000 a year to stand on her feet all day long and you have to let her go. It's not a good scene, is it? So I do sympathize with you that you're downsizing. You don't have a lot of money and yet you're asked to pay one more tax.

Simply put here, the government has decided that there is a quick, relatively easy way to save $25 million. You know the way it goes. It goes to the central agency, which is the Ministry of Finance. It goes into vortex. They need $25 million bucks, so why should you pay the $25 million? The banks are not going to complain; heavens, the insurance companies are not going to complain. They're too busy keeping the banks at bay. But you are now a member of the club. The trick here is that the club is made out of different players, big ones and small ones. You are a small one.

So you are appearing right before, on the eve of the passage of this bill to say, "Be careful about my ability to pay," and you're right on. We don't know now how much you will pay. What we know is that $25 million will change hands. You will all pay, whereas yesterday you did not pay, and the range of services offered to you will not change. But in order to change the 25 million bucks you have to say, "We're cutting through red tape and we're streamlining," because you just can't say, "Look, it's a new tax, $25 million, because we've got to satisfy the tax cut." But that's for another day.

I sympathize with everything and I hear that the government side is listening. When it comes to regulation, we don't have that power with the opposition, Mr Robins, but they do; that when they meet a certain evening at regulations, they will say: "Give a break when it comes to the fee. Be consistent and reasonable but look at their ability to pay." Because if the day comes that you can't function, you're not serving the purpose of anybody.

Are you confident that some of the recommendations, especially with a focus on the fee structure, that the government will listen to you? I think they will listen to you.

Mr Robins: The share of the credit unions, you're looking at probably roughly $5 million, which is relatively small. I believe that's roughly the branch budget for the credit unions branch, which relative to the total base for credit unions is small, but its the mention that ensuring that those costs just don't start escalating. The comment about the $25 million, I don't think the compensating reduction in the corporations tax to offset the increase in the transfer from government to the commission which will levy it — so they will be $25 million better off, but the corporations tax is not going to drop.

Mr Pouliot: Not likely, not in your field.

The Chair: You have a few minutes left if you want to use them for any further comments, Mr Robins.

Mr Robins: Not unless you have some more questions.

The Chair: No, we don't. I just wanted to let you know if you had any further comments, you were free to make them.

Mr Robins: I'll just make one comment on the banks. One of the reasons that margins are lower than they are with the banks of course is. We have been acting for the community, we've been keeping our costs to the users lower than the banks, because most credit unions and caisses populaires don't have the same level of service fees. They don't charge the $13, $14, $15 for whatever. Somebody mentioned the nickel and diming that goes on. Of course that's one reason why the profit level is somewhat lower. As we mentioned, one of the key moves that many credit unions are now making is moving into ancillary services where these margins can be increased through, effectively, payments by third parties.

Mr Pouliot: I wish we had time to philosophize and I would certainly like to hear your opinion one day soon

perhaps, Mr Robins, about the Province of Ontario Savings Office, that great institution which has been by mandate a monopoly, the cartel of all governments, everyone has a chance at it. But there's only one hand with those people it seems, the hand that takes money in. Their services fees are competitive indeed. Why not? There's no risk whatsoever.

Mr Robins: POSO has the best of all worlds. It doesn't have any —

Mr Pouliot: Do they come in under this? I don't see them, no.

Mr Robins: No. They have all these liabilities but no assets. It's great for the government. You couldn't really buy it and get the same rate of return, because they tend to pay a higher rate on deposits than the banks and the credit unions. We can't compete.

The Chair: Thank you very much, Mr Robins, for coming today and answering questions.

I'd like to alert committee members to the fact the committee agreed to have all amendments tabled by 1 pm today, if anyone needs to be reminded of that. I also want to mention that the business paper for today in the House shows Bill 149 might come up. If it does, we will not sit for clause-by-clause because of the protocol that two financial bills don't appear at the same time in committee and the House.

ASSOCIATION OF CANADIAN PENSION MANAGEMENT

The Chair: I'd like to ask for the Association of Canadian Pension Management. Please come to the table. I would like to tell you, just while you're settling in, there's a small possibility of a recorded vote in the House, in which case we would take a five-minute recess, go up and vote and then come back down and complete your time. It doesn't happen very often, but it's possible.

You have half an hour to use, totally as you wish. You may wish to present for the entire time or take part of the time and then I will divvy up any remaining time for questions from the different caucuses. It's entirely up to you. Would you please identify yourselves for the record.

Mr Ross Gascho: My name is Ross Gascho.

Ms Mary Ross Hendriks: I'm Mary Ross Hendriks.

Mr Gascho: As you know, we're here today on behalf of the Association of Canadian Pension Management, and we'd like to thank the Chair and the members of the committee for inviting ACPM to present its submission today. Our comments today are as members of ACPM's advocacy and government relations committee.

At the outset, we commend the government for commencing the reform of financial services. We hope that the government goes further down that road as the various types of financial services come to look increasingly alike.

ACPM is a national association of pension plan sponsors. Its members represent more than 500 plans, with assets in excess of $250 billion. Its members also include members of the legal and actuarial professions, as well as other professional advisers to pension plan sponsors.

We believe that the views we're putting forward today are representative of a large number of our members. We note that ACPM has been, to our knowledge, the only major private sector group encouraging the government to undertake pension reform. In this regard we would point out that we provided detailed submissions to the red tape review commission and that that commission incorporated many of our recommendations into its report. We appreciate the opportunity to build upon our earlier work with the government.

With respect to Bill 140, the first of our points concerns the national regulation of pension plans. To date, a number of jurisdictions have passed legislation that would permit the jurisdiction to enter the multilateral agreement among the members of the Canadian Association of Pension Supervisory Authorities. The effect of that agreement would be to simplify the administration of pension plans with members in more than one jurisdiction.

The Red Tape Review Commission recommended that the Minister of Finance should explore ways to make administration of pension plans more efficient and reduce regulatory overlap. Obviously, one of the ways to do this would be to adopt the CAPSA agreement. However, Bill 140 does not include provision for Ontario to enter that agreement. In our view, it should do so, and we would strongly encourage the government to revise the legislation to include the appropriate enabling language.

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Our second major point concerns the commission that is established by the legislation. The government has articulated its interest in reducing the regulatory burden on businesses and other economic interests in Ontario. However, the legislation merges only the regulation of some aspects of financial services and notably excludes the regulation of securities regulation. We note that in other jurisdictions, in particular the federal jurisdiction, there is only one regulatory agency applicable to all financial services, and we wonder whether the same model may be suitable for financial services in Ontario.

The final point I would like to address concerns the principles outlined in section 3 of the legislation. As we understand it, the initiative to create the commission emerged from the previous government's plans to consolidate the various regulatory bodies. We are concerned that many of the structural changes may not improve the quality of resources necessary for effective pension regulation and policy-making. In our view, in order to ensure the most efficient and effective regulation of pension plans, the purposes of the commission should be expanded. In particular, the statute should include in its principles securing, preserving and protecting money contributed to pension plans and, second, encouraging the government to adopt the least burdensome regulatory approach that remains consistent with its overall regulatory objectives.

In this regard, we note that yesterday legislation was tabled in the federal House of Commons to amend the Office of the Superintendent of Financial Institutions Act. Part of that legislation would stipulate that the objects of OSFI in respect of pension plans are to supervise pension

plans and ensure they meet minimum funding requirements and all other aspects of the Pension Benefits Standards Act.

Similarly, the Ontario Securities Act provides a framework for the regulation of financial services that may be suitable in part in the pension context. Pensions and insurance are at least as important as securities to the lives of Ontario residents, and we believe the legislation affecting them should reflect that importance. We would point out that the Ontario Securities Act refers in its purposes to balancing the importance to be given to each of the purposes of the legislation: effective and responsive regulation through timely, open and efficient administration and enforcement of the act; harmonization and coordination of regulatory regimes; and ensuring that regulatory costs are proportionate to the significance of the regulatory objectives sought to be achieved. In our view, these principles are critical to ensuring that the regulation of pension plans in Ontario is both efficient and effective, and therefore Bill 140 should reflect these.

Ms Hendriks: I'd just like to thank the committee for allowing us to present our views here today. My remarks today are made only as a concerned member of the government advocacy committee of ACPM and in my own personal capacity. Unfortunately, due to time constraints I have been unable to discuss this issue with my colleagues at my own association, and so I do not represent their views here today.

The first issue I'd like to raise with you is the issue of the tribunal. We believe the decision to maintain a tribunal within Bill 140 is very regrettable for several reasons. First, we believe it represents a significant duplication of costs and effort and adds to delay on major pension cases, which are almost inevitably appealed to Ontario Divisional Court without having to obtain leave in any event. Since the pension plans typically bear the costs of such litigation, we believe the government must recognize the effect of this problem on plan beneficiaries both in terms of money and delay.

Second, there is the very real issue of the overlapping jurisdiction between the authority of the superintendent and the tribunal granted by statute and the inherent authority of the judiciary. In our view, the commercial list of the Ontario Court (General Division) is the most appropriate place for these matters to be heard, since the judges on the commercial list have expertise in commercial litigation matters and they are completely independent.

Third, if you are concerned with the rights of the ordinary person to find redress on pension matters, for whom litigation might be unduly expensive, we suggest you might want to consider establishing some sort of alternative dispute resolution mechanism within the administration of FICOM in much the same way that the Ontario Insurance Commission currently resolves minor disputes through mediation and processes all of these smaller matters within a two-week period. We believe this would be a much more efficient use of government resources and would still protect the rights of the individual to due process. Of course, if there appears to be a deliberate breach of law, FICOM could still pursue a prosecution in conjunction with the Ministry of the Attorney General through the courts in any event.

On that point, we suggest that the amendment to section 111 of the PBA by section 221 of the bill is too circular. It would make more sense for the superintendent to order the matter to be taken to court directly rather than putting the onus back on the administrator to do so. We actually wonder if that might be a drafting error.

We would also like to point out to you that OSFI is able to oversee federally regulated pension plans without a tribunal. We believe Ontario can do so as well.

My second point is policymaking. It's our belief that since the early 1980s the government has relied much too heavily on the pension commission to provide it with policymaking advice when the commission has been relatively short-staffed and has been too focused on administrative matters to be able to give enough attention to serious overlapping concerns between provincial pension regulation and federal income tax issues or to the CAPSA agreement on the regulation and multilateral pension plans or the development of a national pension regulatory regime.

The distinctions between various sectors within the financial services industry in Canada are eroding as these sectors all mature. It is vitally important that the government, as an elected body, work with the pension industry to take the lead in establishing reforms to these sectors. It should not rely on overburdened tribunals or administrative offices to find the time and resources necessary to plan for the future of Canada's regulatory landscape.

We urge you to clarify the minister's role in policymaking, in particular under section 12 of the bill, and to incorporate a guideline-making power similar to the Ontario Securities Commission's power to do so, as well as some sort of consultation process with the pension industry as a whole. We've addressed that point in more detail in our submission.

Thank you very much for providing us with the opportunity to voice our concerns with you here today.

The Chair: We have approximately 20 minutes left. We'll divide that time up evenly between the caucuses for questions, starting with the Liberal caucus.

Mr Phillips: The recommendation that the appointment of the superintendent be not by order in council but by the minister — I wasn't aware of that. Maybe the parliamentary assistant could help me. Is the appointment of the superintendent by the minister or by order in council?

Ms Hendriks: Presently in the legislation as drafted, it would be by the minister. We're recommending that it be by order in council. That's just to maintain the independence of the superintendent.

Mr Phillips: So that is the way —

Mr Grimmett: Yes, that is correct.

Mr Phillips: Maybe we could ask later the reason for that.

Ms Hendriks: The reason really is just to maintain the independence of the superintendent from the ministry itself. The tribunal, if it goes ahead, would be appointed

by order in council. We think the superintendent's role should be as well.

Mr Phillips: Right. I was more saying we'll ask later the ministry staff or the government the reason why it is not by order in council.

You're also proposing that this have the same arm's length as the Ontario Securities Commission. Maybe to help us along here, this is a body that will be overseeing some of the most sensitive areas of consumer protection in Ontario: insurance, pensions, deposits. My own question is, if it's completely arm's length, is there a danger that the government absolves itself of any responsibility for this? In the end, I think people expect that their elected body has set up a regime that offers them the maximum — not total, but the maximum — protection. Could you see that if this were arm's length like the Ontario Securities Commission, the people's government may be too far removed from them?

Mr Gascho: I would suggest that if there was a major meltdown, let's call it, in securities regulation, the government would certainly be abundantly aware of that through its various constituents, that by moving pension regulation to an arm's-length model, Ontario citizens would continue to be protected, and that moving to that arm's-length model would certainly not absolve the government of its political responsibilities.

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Ms Hendriks: If I may add, in the broader picture, if it were to move to being a schedule 3 agency and self-funding, it would give FICOM more control over its own resources. One of the things that needs to be addressed going forward is the development of a national pension regulatory body. Ultimately, we might end up in Canada with a national securities commission and a national pension commission.

Mr Phillips: I was going to ask you about that, because I tend to think that is a natural evolution. It's just a matter of when, I think, not a matter of whether. Can you help me to understand why what we're doing with this bill will make that more difficult? Maybe I didn't quite understand your concerns.

Ms Hendriks: I think the difficulty, and it's point 3 in our submission, is that we're concerned that the bill just doesn't anticipate further process in this regard. It does not appear to make provision for the adoption of the CAPSA agreement on the regulation of multilateral pension plans.

Mr Phillips: Frankly, I technically don't understand that. Because it does not make the provision, is it not possible that down the road, when we are possibly contemplating a national pension scheme, we could move naturally to that? Is there something in the bill that makes it more difficult to move to that?

Mr Gascho: I'm not sure if we can comment that there's something in the bill that makes it more difficult to move towards that unified regime. I would point out, however, that it has been over 10 years since pension regulation was reviewed in Ontario. If we're going to undertake a wholesale review of the regulation of financial services, perhaps the regulation of securities should be bought under that umbrella.

Mr Pouliot: Thank you for your precious time indeed. It's high time, I think almost everyone will readily acquiesce, that pension regulations be updated to reflect the consumer's demand and the sophistication of the plans, the diversity, the changes that have taken place within the confines over the years.

You mentioned the need to consult with the pension industry. I take it that you were talking in terms of legalese, in terms of amendment or what a new act would reflect. I take it from a consumer's point of view when we talk about the pension industry, to help the people who make up the pension industry, ie, contributors, for without them there's nothing left; nothing else matters; it's a no-show.

I have a great deal of difficulty with the pension systems as they stand. I've followed the annals of some unethical ones, although they are a minority, but the people who were hit are real, where you wern't vested before for 10 years at one time, so ABC company became ABY by design. People were, under some defined terms, actuarially lowballed, anything that became a surplus went into the general pool of money. We know that.

The people I deal with at Midland Walwyn, if I make money, they give it to me; if I lose money, I take the responsibility. I can diversify. We all can do this if we take the time to study a little bit, whereas it is impossible over a period of time to lose money.

Now you have, with the great support, or tacit support at least, of the pension industry, the locked-in retirement provision, and the mechanism that will generate the money is a LIF, a life income fund, one of the great tragedies of our time, where you must annuitize by the time you're 80 years of age, and you're capped at 7.5% if you're over 50. This leaves the consequence of a friend of mine who is over 55 years of age, lives in Manitouwadge, got a buyout, got $171,000. He's diagnosed with a rapidly growing cancer. It doesn't augur well for my friend. He and his wife want to go to England; that's where his roots are. He can only draw 7.5% out of $171,000. The irony of it is that last year his assets grew by 18%, so you have that kind of tragedy. Conversely, if he had an ordinary RRSP, which would turn into an RRIF, he would be subject to a minimum, but there is no maximum.

So I would go beyond the need to regulate. That goes to say, let's have some consistency under the pension plans. Stop the tragedy. In this case, at 80 years old he'll be forced to annuitize. It's his money, but he won't be around, you see? Oops. And it's capped, whereas with an RRSP it's not capped. This is a tragedy. I'd like to find out more, when you have time, about pensions.

Mr Grimmett will spend some good hours talking about the need to revamp, to simplify it and to have it under one umbrella so that everyone who is subjected to pension — your presence is treated equally — has a better understanding of the system. I could not ask for a better presentation. You were late being added to the list. I've benefited greatly. I'll keep this.

Ms Hendriks: I'd just like to address your point. If people are concerned about incidences such as your friend, maybe the best way to do that would be — when we talked about incorporating a consultation process under section 12 of the bill, we were thinking of industry groups, but there's no reason why consumers' groups couldn't participate in that process as well. That might improve the policymaking going forward and ultimate changes to the legislation.

Mr Grimmett: Thank you for attending here today. You certainly have a wealth of expertise in the area. I don't think the time I have will allow me to address all of the points you made even if I was able to, but I did want to address a couple of issues that you raised.

First, I want to clarify that I know the Minister of Finance is quite interested in pursuing the issue of a unified pension regime in Canada. It's quite fair to say the government has no intention of in any way frustrating that process through the introduction of Bill 140. We see Bill 140 as something that's very logical, because we see the integration of financial services everywhere. Many jurisdictions have seen the wisdom in trying to integrate the regulation of financial services. That's what Bill 140 attempts to do, to try to bring about efficiencies and have an integrated regulator model. I don't think that should be confused in any way with our agreement in principle with the idea of having some kind of unified regulatory regime of pensions in Canada.

During the ministry's pre-budget consultations with the pension people, we heard overwhelmingly that the pension industry valued the expertise of the Pension Commission and they wanted that to remain within the Financial Services Tribunal. Can you comment on that?

Mr Gascho: One point that I would make on that issue is that the view you have mentioned has been espoused very strongly by the Canadian Bar Association, for example, as one group. There have been three recent court cases, both in Ontario and in other jurisdictions, indicating that the standard of review that is applied to a pension regulator is one of correctness.

As the Pension Benefits Act is currently written, there is an automatic right of appeal to the courts. The scheme that's currently proposed under Bill 140 is that, for the most part, the superintendent makes the decision, the parties can then appeal to the tribunal, and then there's an automatic right of appeal to the courts. I think what the ACPM is concerned about is that the tribunal may be an unnecessary middle player because of the recently enhanced role of the courts, saying, "We will overturn the pension regulator unless we consider the regulator to have been correct," rather than the previous position which the courts took that they would substantially defer to the position taken by the regulator.

The Chair: Thank you for appearing before the committee. We appreciate it very much. We actually have a couple of minutes if you have any additional comments, any issues. No? Okay. Thank you.

Contingent upon Bill 149 not being debated in the House this afternoon, this committee stands adjourned until —

Mr Phillips: Mr Chair, it's our intention to move four amendments. We've given the clerk one of the amendments, but the other three are not in the required legal form. They are the three that the Credit Union Central proposed today. We're going to try and get leg counsel to draft it, but it may be 2 o'clock before we have it, maybe 2:30. It's the wording that we've got from the credit union, but I don't know what I need from the committee to —

The Chair: Unanimous consent.

Mr Pouliot: I do have a question, dealing again with amendments. The government has four amendments. This is the final four, right?

Mr Grimmett: Yes, that's correct. There will be four.

Mr Pouliot: So we're not to expect any surprises. It's fairly straightforward. Okay. We have none.

The Chair: Committee, do we have unanimous consent that the Liberal Party will put their amendments in writing and have them to the clerk by 2 o'clock instead of the originally agreed 1 o'clock? Agreed.

Mr Grimmett: If it's 2:30, it's not going to be a problem.

Mr Phillips: It's the wording that the credit union —

Mr Grimmett: We all know what the wording is.

Mr Phillips: It's getting it translated into legalese.

Mr Wettlaufer: Gerry, we always try to cooperate.

Mr Phillips: I sure do appreciate that.

The Chair: Again, contingent upon Bill 149 being in the House this afternoon, the committee will adjourn for now and we will come to order again at 3:30 to consider clause-by-clause of Bill 140. The committee stands adjourned.

The committee adjourned at 1203.

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ISSN 1180-4386

Legislative Assembly of Ontario
First Session, 36th Parliament

Assemblée législative de l'Ontario
Première session, 36e législature

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Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 9 October 1997

Jeudi 9 octobre 1997

The committee met at 1003 in room 151.

FINANCIAL SERVICES COMMISSION OF ONTARIO ACT, 1997

LOI DE 1997 SUR LA COMMISSION DES SERVICES FINANCIERS DE L'ONTARIO

Consideration of Bill 140, An Act to establish the Financial Services Commission of Ontario and to make complementary amendments to other statutes / Projet de loi 140, Loi créant la Commission des services financiers de l'Ontario et apportant des modifications complémentaires à d'autres lois.

The Chair (Mr Terence H. Young): This committee is now in session. We're meeting to consider Bill 140 clause by clause. I was going to say, "Ladies and gentlemen," but it's just gentlemen at this point. You should have a small package of amendments stapled together, the one on top saying, "Government Motion." If anybody doesn't have that, please tell me now. There are eight pages in it, representing eight amendments. Does anybody not have that?

If you'll bear with me for a minute, I would like to number them because it will help us to get through this. The one on the top is obviously number 1. The second one says, "Liberal Motion" to section 12.1; we'll number that 2. The third one is a Liberal motion to section 15; we'll number that 3. The fourth one is a Liberal motion to subsection 25(1); we'll number that 4. The next one is a Liberal motion to subsection 25(4); we'll number that 5. The next one is a government motion to subsection 75(2) of the bill, section 15 of the Insurance Act; we'll number that 6. The next one is a government motion to section 123 of the bill, subsection 393(9) of the Insurance Act; we'll number that 7. The last one is a government motion to subsection 123(2) of the bill, subsection 393(10.2) of the Insurance Act, and we'll number that 8. I think that will facilitate us in going through.

I would like to ask for any questions, comments or additional amendments to the bill and, if so, to what sections? We'll start with the official opposition.

Mr Gerry Phillips (Scarborough-Agincourt): I think what I had expected was that we would begin to move through the bill. The purpose of today's meeting is to approve the clause-by-clause and also to deal with the amendments. I had expected that we would move on to the clause-by-clause on the bill now, and I'll hold my comments until we get to the amendments that we've proposed.

The Chair: Any comments at this point, Mr Pouliot?

Mr Gilles Pouliot (Lake Nipigon): Although we have no amendments, I, with my colleague Mr Phillips, have a team, if nothing else, of professed expertise that can guide us through at least the government amendments. I'd like to hear the rationales and I'll certainly be tapping their knowledge as we go through.

The Chair: I have no proposed amendments to sections 1 to 4. Shall sections 1 to 4 carry? Carried.

Subsection 5(1) has a government amendment. Would you like to speak to the amendment, Mr Grimmett?

Mr Bill Grimmett (Muskoka-Georgian Bay): I move that subsection 5(1) of the bill be amended by adding at the end "who shall be the chief executive officer of the commission."

Would you like a brief explanation?

Mr Phillips: That would be nice.

Mr Grimmett: The amendment states that the superintendent will be the chief executive officer of the Financial Services Commission, clarifying the powers of the superintendent in the commission. This will eliminate any possible confusion over who is the commission's chief executive. From experience, I'm told that at times there could possibly be confusion between the chair and the superintendent, so we wanted to make it clear that it is in fact the superintendent.

The Chair: Shall the amendment carry? Carried.

Shall section 5, as amended, carry? Carried.

I have no proposed amendments to sections 6 to 12. Shall sections 6 to 12 carry? Carried.

Section 12.1: I have a proposed amendment from the Liberal Party. Mr Phillips, do you want to comment on that?

Mr Phillips: I move that the bill be amended by adding the following section:

"Regulated Sectors Advisory Committee

"12.1 (1) There is hereby established a committee to be known in English as the Regulated Sectors Advisory Committee and in French as Comité consultatif des secteurs réglementés.

"Members

"(2) The committee shall consist of a representative appointed by each of the regulated sectors.

"Salary and expenses

"(3) The members of the committee shall not receive any remuneration or reimbursement of expenses from the crown in right of Ontario with respect to serving as members of the committee.

"Purpose

"(4) The purpose of the committee is to provide advice to the commission on the operations of the commission.

"Powers

"(5) The committee may review the revenues, expenses and expenditures received, incurred and made by the commission and the annual business plan of the commission.

"Meetings

"(6) The committee shall meet at the request of the chair of the commission or the members of the committee.

"Chair and vice-chair

"(7) The members of the committee shall elect a chair and vice-chair of the committee who shall hold office for the length of time not exceeding one year that the members specify."

1010

A brief explanation: You may remember that it was Credit Union Central that suggested this and that all of the funders of the Financial Services Commission — this is a self-funding operation, they'll all be levied fees to cover the cost. There is a feeling at least by the credit union group that, because they are funding this and because it essentially is a commission that will be using their money to run, they should have some advisory group that on a regular basis has input into the committee. Obviously, the committee still makes its decisions by all of its mandate here in the bill, but it just institutionalizes an advisory group.

I think the government has indicated that the expectation was there would be an advisory group anyway. I think organizations know governments come and go, but the law remains. If it is the intent of the government as an integral part of the bill that there be an advisory group, I think the funders would feel more comfortable in putting in the bill the advisory group, so that if there's a change in government or what not, it's not at that whim; it's institutionalized.

Mr Pouliot: In this instance, by way of reiterating, we agree with your motion, the first Liberal proposed amendment. Simply put, and we haven't arrived at the exact figure yet for it has not been provided or published or given to us, this is a shifting of money. This is pretty well the essence. It's not bad, but you have quite a bit of window dressing here. There's a saving to the government of some $25 million. Now you have the users pay, and the users are saying positively, "Since we are carrying the freight on this, we are paying the bill, it's a new fee for us yet to be determined by way of regulation and we don't know how much it will cost us, but we would like to be part of an advisory committee."

The government has said, "We're not opposed to an advisory committee but we do not wish to have it in the legislation." As I look through the bill, there is little which is compelling or threatening or in any way jeopardizes the integrity, the intent, the spirit of what is being proposed here. I see it as a gesture of goodwill and so commonsensical that certainly our party will support the Liberal motion. It makes a lot of sense. I don't wish to speculate, but I'm sure the government will indicate in relatively short order that they too are in agreement with the straightforwardness proposed by the Liberals in this instance. So I do favour the Liberal motion.

Mr Grimmett: I'd just like to address some of the points that have been made. I think they have been made in a very fair fashion and it's difficult to disagree with most of the points that have been made by my colleagues, but the government's position is that the committee that is suggested is too inflexible. It suggests having one member per sector, and these seven sectors have very significant differences in size and composition. We have made a commitment not only to the credit unions but to all of the industries that are being regulated here that we will have an advisory committee, and we are even looking very seriously at the issue of having a memorandum of understanding between the minister and the commission to set up such a committee.

I've had discussions with some of the people who presented to us last week on that particular issue, but we feel it's not advisable to have it in the bill itself, because it creates too inflexible a structure. Given that some of the people who provide advice and are affected by the legislation come from other parts of the industry, such as lawyers, actuaries, accountants etc, perhaps they should be part of an advisory committee. We feel it's not necessary to have the entire committee concept set out in the bill, but we are committed to having an advisory committee and we will continue to work with all of the industries in making sure that this new regulatory scheme works.

The Chair: Further comments or questions? Shall the motion, the new section 12.1 as recommended in the Liberal amendment, carry?

Mr Phillips: Recorded vote.

Ayes

Phillips, Pouliot.

Nays

Arnott, Grimmett, Rollins, Wettlaufer.

The Chair: The motion is defeated. I have no amendments for sections 13 and 14. Shall sections 13 and 14 carry? Carried.

Section 15: I have a proposed amendment from the Liberal Party for a new section, subsections 15(4), (5) and (6).

Mr Phillips: I move that section 15 of the bill be amended by adding the following subsections:

"Reports to regulated entities

"(4) Within a reasonable time after the close of each quarter in each fiscal year, the commission shall send to all entities assessed under section 25 a written report on all revenues, expenses and expenditures that the ministry,

the commission and the tribunal have received, incurred and made in respect of each regulated sector under this act.

"Audit

"(5) The commission shall have a qualified person prepare a value-for-money audit of the accounts and financial transactions of the commission with respect to each fiscal year.

"Reports done annually

"(6) Within a reasonable time after the close of each fiscal year, the commission shall send to all entities that form part of a regulated sector,

"(a) a written report on all revenues, expenses and expenditures that the ministry, the commission and the tribunal have received, incurred and made in respect of each regulated sector under this act; and

"(b) a copy of the audit mentioned in subsection (5)."

The purpose of this amendment is, I think we all know, the form that annual reports of groups like this take, and while they're useful for the public record, if you are an organization that is directly and dramatically affected by this, and where you are incurring a significant amount of expense, it's normal in businesses that when that's happening there's some regular reporting done, so that the members of the sector can be aware of their financial obligations.

I must say there will be some instances, I think, in the future where sectors are going to have substantial costs incurred. These are sensitive regulated sectors that from time to time will run into — I hope not, but history says — some challenges: the pension area down the road, the deposit area down the road and the insurance area. I think it's only prudent business practice that they have access to the financial data they need to run their organizations. As I say, they're the funders and certainly a government would not operate this way. It would not just simply on an annual basis prepare its reports. It prepares quarterly reports and reports in some detail. Similarly, I think this organization should report to their financial backers on a regular basis.

1020

Mr Pouliot: We just briefly looked at this. I'll be candid with you. I consistently look for ways to do anything within our limited powers to defeat what I consider, in a political context, to be the closest thing to evil that in 13 years I have ever encountered. But most unfortunately in this case, this Liberal motion I cannot support. I'll tell you why.

The term "audit": I see nothing wrong with a financial audit, because when you pay the freight, when you pay the bill, you need a financial audit. But the value for money is something that in this case I don't think applies at all. You go beyond the relationship between the fee that is charged to that user; you instil a philosophy, which is ill suited, especially from the official opposition. We cannot talk about the official opposition and talk about a philosophy in the same breath. They have a philosophy, we have a philosophy. You cannot go beyond that in your relationship.

Value for money means that as a citizen are you getting a fair shake for your tax dollar? This is a business, a contractual arrangement, services and a user. A financial audit would suffice. Value for money becomes the closest thing to a witchhunt and is open to criticism and is non-businesslike in this case, so we will not be supporting the Liberal motion.

Mr Grimmett: We won't be supporting the motion, and I think we have good reasons for this. The suggested amendment would require the commission to report quarterly and annually on revenue and expenditures for each regulated sector to all entities in each of the sectors. There would have to be reporting to insurance companies, pension plans, credit unions, mortgage brokers etc.

We haven't been asked by any other sector to have this kind of quarterly reporting regime. The regime that is going to be established if this commission is set up would be modelled on the current practice of the insurance commission, which is one of the agencies that's being rolled into this entity. That insurance commission currently operates on a system, since about 1990, where they fully disclose the projected cost for each sector for the fiscal year. Then they adjust at the end of the fiscal year to account for the difference between projected and actual costs.

We feel that having a requirement of quarterly reporting would be extremely costly. What we're trying to achieve with this commission is not only something that protects the public, but also we have a commitment to the industries that we're going to try to accomplish this regulation as efficiently as possible and in a cost-effective way, because they're, after all, the ones who pay for the cost of regulation under the scheme.

Currently in Bill 140 the commission has to submit an annual report to the minister. The Provincial Auditor is required to audit the commission's financial statements annually and report to the Board of Internal Economy, the minister and the Secretary of Management Board. The Provincial Auditor has the power to conduct value-for-money audits on any part of the commission's operations. We feel those are good measures and we certainly are committed to continuing to work with the industry to make sure that they are satisfied with the accountability of the commission back to them.

Mr Wayne Wettlaufer (Kitchener): I would like to echo what Mr Grimmett said. I've had considerable experience with the insurance commission. I'm surprised that it was only 1990; I thought it went back further than that under the present regime. But I have to say that it works extremely well. It serves the public and it serves the insurance industry. If this model is being adapted for all of the industries that are going to be incorporated into the new commission, then I think it will work extremely well.

The Chair: Further comments or questions? Shall the Liberal motion carry?

Mr Phillips: A recorded vote.

Ayes

Phillips.

Nays

Jim Brown, Chudleigh, Grimmett, Pouliot, Rollins, Wettlaufer.

The Chair: The motion is defeated.

Shall section 15 carry? Carried.

I have no proposed amendments to sections 16 to 24. Shall sections 16 to 24 carry? Carried.

I have two proposed Liberal amendments to section 25.

Mr Phillips: I move that subsection 25(1) of the bill be amended by inserting "except for cooperative corporations to which the Co-operative Corporations Act applies that do not carry on a financial enterprise" after "sector" in the third line.

By way of explanation, we discussed this last week at the committee. I find it really unusual, and I actually think it's probably a mistake, to put in this Financial Services Commission responsibility for all of these other cooperative organizations. I'm really puzzled by it.

This is the mandate of the Financial Services Commission: "The regulated sectors consist of the insurance, pension and deposit institution sectors in Ontario." But what's being moved in here is responsibility for organizations like Gay Lea Foods, the North American Students Co-op, the Ontario Natural Food Co-op, the Ontario Worker Co-op Federation, the Organization for Parent Participation in Child Care, the Co-operative Housing Federation of Ontario.

We're putting these in this organization that has an absolutely key role in Ontario. It's making sure that our pensions are properly regulated, our insurance industries are properly regulated and our trust companies and credit unions are properly regulated. I said last week that I think these organizations will be orphans there.

What the amendment is trying to do is at least recognize that the parts of the cooperative movement that are not financial enterprises need some special consideration if they're going to be in the Financial Services Commission. For me at least, it makes zero sense for them to be there, but if the government has decided they're going to be there, at least it gives them some special status within the organization and separates them so that at least there's a recognition that when organizations are trying to deal with insurance and pensions and deposits, it now will assume responsibility for Gay Lea Foods and the Food Co-op and the Worker Co-op and the Co-operative Housing. This is trying to make the best of what I personally think is a strange decision.

Mr Pouliot: I couldn't agree more. Constitutional monarchies have many qualities. Some will say that they're legion and their faults aren't many. One of the major faults is that no matter what you're faced with, unless you're the one who thought of it in the first place, you're not about to bring in amendments. But the bill is not intended to incorporate, in the context of fees, non-profit people who shouldn't be there in the first place. It is unfortunate, given that they've had the presence of mind to bring it to the attention of everyone — it's positive; the Liberals did it — unfortunate because that had it been a motion presented by the government du jour, the government of the day, it would be adopted. They would just readily acquiesce and move on to the next amendment.

1030

Sure, do it, and you'll find a way by regulation not to do it if you wish, but what is being said here is right on. This is not the intent of the bill. The incorporation was to have them, but is it to exclude them from the fee? Some of them are non-profit. They shouldn't be there when it comes time. I hope, regardless of what happens, with respect to Mr Phillips, to this amendment, when it comes time to regulate, certainly some consideration will be given that way, then, to the amendment because that's not the intent here. They're a non-player when it comes to participant in terms of fee and they shouldn't be exposed. It was caused by the Liberals who were happy to support the amendment to 140.

Mr Grimmett: We don't feel that the bill should be amended in this way because the commission's cost recovery system has not yet been designed. We listened quite carefully to the presentation made last week by the cooperatives, and I thought they were very reasonable in their presentation. Frankly there was some disagreement, I think, between the presenters as to whether they wanted to be regulated within this commission, but I think Judy Goldie stated that they were satisfied that this was where they were going to be.

They were satisfied that the regulatory expertise that exists in government will be within this commission. They recognized that they needed to be regulated. We have emphasized throughout this process that we have to make sure there is adequate consumer protection within the commission and we feel that the expertise we have in government to regulate this sector should be here within this commission, notwithstanding that they are a slightly different animal from the other entities.

The issue about the non-profits: I think if you look at the existing subsection 25(3) of the bill, you'll see that the commission has the power to set assessments differently for each sector or entities within a sector. You may recall from the presentations last week that the sector representatives admitted they would form a very small part of the cost of regulation for the commission, and that being the case, they would pay a very small portion of the assessments or fees or both required to cover them.

The ministry has agreed to work with the cooperative associations on a comprehensive review of cooperative regulation, because we want to reduce their costs and increase the efficiency of that sector if possible. But we have to also keep in mind the consumer protection. If the fees that are levied on the cooperatives are sufficient to cover the regulatory costs, then there would be no need for the commission to resort to assessments. We are committed to working with that sector in the industry to design a fee structure that's satisfactory and accomplishes the goal

of making sure that we have the necessary regulatory powers, but also that we are doing it as efficiently and as effectively as possible.

Mr Pouliot: Yes, in response, with respect to my friend and colleague Mr Grimmett, it's like pulling teeth here. I listened intently and hang on every word you've said, sir, and now you begin to unveil the regulations. You say they will do this, they will do that, and yet you're tentative in your tone. The thing is, where are the regulations? Where do we have the assurance? Mr Phillips, with respect, would not have come in with some amendments, perhaps, had he been in possession of regulations which we will have no access to debate and to present on behalf of. Mr Grimmett, with respect, where are the regulations?

What is it you're saying when you say they have the power to do this and they might be exonerated or they might be assessed a smaller fee? Every case is different within the sector and so on. That's right but it's verbiage, because you don't know what the regulations are. Or do you know? I don't know. You suspect and you think that the good people here will take copious notes and then come up and say, "Okay, yes, we missed that but we never intended to" — it wasn't you, Madame, but it was you — I mean, aside from food for thought, what kind of solid guarantee is that, and the support for the amendment?

You can't chance things, you can't always guess. These are contractual arrangements of importance of the highest order for those who are about to be assessed, and we want to know and now you flirt. You're intelligent enough to be cute perhaps, but you say, "This is this and this is that," and you leave people dangling. What are the regulations? How much will it cost? The people that appeared right there last week, will it cost them nothing? Will it cost them something? Will it cost them big time? Those are all legitimate questions, and you have no right, sir, to flirt with the possibilities and so on, because when we go back in the real world outside these premises, the precinct, people are going to be asking, "How much am I going to pay?" What are we to tell them as representatives?

Mr Grimmett: The intention we've made clear all along is that if we're able to get the legislation passed and in place there will then be significant and, I'm sure, lengthy meetings with all sectors that are being regulated here and they will have every opportunity to influence the method of setting up fees and assessments. That commitment has been made consistently.

Mr Phillips: Help me out a little bit here, because I had thought we were setting up this Financial Services Commission to deal with pensions, deposit organizations, credit unions and trust companies, and the insurance businesses. I can see there's the possibility of some synergy.

But as I read what you're doing now, they also will have the responsibility — the purpose is to provide regulatory services that protect the public interest and enhance public confidence in the regulated sectors. Am I to as-sume that part of the responsibility will be the Co-operative Housing, an organization like Gay Lea Foods, the Ontario Worker Co-op, the Ontario Natural Food Co-op, the child care cooperatives and that the public should hold this commission, in the future, responsible for protecting the public interest and enhancing the public confidence in the Co-operative Housing, Gay Lea Foods, all of those things? I just want to be sure in approving this bill that we now have turned over that responsibility to this group. Have I got that right?

Mr Grimmett: As has been explained, all of the sectors currently regulated by the financial institutions section of the ministry are being rolled into this commission, and the best explanation for that I think is that the expertise to regulate them is in that sector and we are just rolling that in. As we heard from the cooperatives themselves, they recognize that the expertise is there. They recognize that they need to be regulated, and they have indicated, I think, that they are quite willing to work with this new entity. They have indicated that they have some concern about the assessment section, but they recognize that the expertise to regulate that sector is going to be within the commission.

Mr Phillips: We should now, the public should now say once we pass this bill that if we've got a problem with the Co-operative Housing or Gay Lea Foods, or whatever, that it's the commission we turn to now?

Mr Grimmett: The commission's responsibility, Mr Phillips, as I understand it with respect to co-ops, will be with regard to the financial aspects of their operation, and that principally would be the issue of raising capital. That's why under the act that they are created by, that falls under the purview of this commission. So it will be their capital-raising operations that will be regulated by this commission.

1040

Mr Phillips: What about the rest of their operations?

Mr Grimmett: I would assume that the housing aspect of it would be regulated by the Ministry of Municipal Affairs and Housing. In terms of Gay Lea Foods or that type of entity, there would be some regulation from the agricultural sector, and probably from the health sector. It would be subject to regulation by more than one entity and more than one ministry because of the type of operation they have.

Mr Phillips: This is really odd. We've vacuumed an orphan into this organization and it makes no sense to me. I look at your explanatory notes and they say the regulated sector shall consist of the insurance, pension and deposit institutions. Then we actually get into the bill, and it changes it and includes the cooperative corporations. I think the commission will be quite surprised when they realize they also are going to held accountable for regulating this industry, but I've learned from experience that when the hands go up, the bill passes, so there we are.

The Chair: Further comments? Shall the Liberal motion, number 4, carry?

Mr Phillips: Recorded vote, please.

Ayes

Phillips, Pouliot.

Nays

Chudleigh, Grimmett, Rollins, Wettlaufer.

The Chair: The motion is defeated.

In your package the next proposed motion is a Liberal motion, number 5.

Mr Phillips: I'll move it, Mr Chair, although it probably was mildly dependent on approval of the previous motion.

I move that subsection 25(4) of the bill be amended by inserting "and the amounts of assessments under that subsection" after "fees" in the fourth line.

The Chair: Did you want to comment on it?

Mr Phillips: I think it's the same debate we just had.

Mr Grimmett: If I could just make a comment, Mr Chair, we haven't really been able to understand the amendment. We think there's no need to say this because it's already covered in the bill. If you're setting assessments, the bill requires you take account of the fees raised from this sector, and requiring the commission to take account of the amount of assessments in setting assessments is repetitive. I don't know whether it's going to be helpful for Mr Phillips in providing an explanation for that or not.

Mr Phillips: It follows from the debate we just had, I think.

The Chair: Shall the motion carry?

Mr Phillips: Recorded vote.

Ayes

Phillips, Pouliot.

Nays

Chudleigh, Grimmett, Rollins, Wettlaufer.

The Chair: The motion is defeated.

Shall section 25 carry? Carried.

I have no proposed amendments to sections 26 to 74. Shall sections 26 to 74 carry? Carried.

Subsection 75(2): I have a government motion.

Mr Grimmett: I move that subsection 75(2) of the bill be struck out and the following substituted:

"(2) Section 15 of the act is amended by striking out "commissioner" wherever it occurs and substituting in each case "superintendent."

This is a technical amendment that is required to make the titles of positions named in the act consistent.

The Chair: Comments? Shall the motion carry? Carried.

Shall section 75, as amended, carry? Carried.

I have no proposed amendments for sections 76 to 122. Shall sections 76 to 122 carry? Carried.

Section 123: there is a government motion.

Mr Grimmett: I move that section 123 of the bill be amended by adding the following subsection:

"(1.1) Subsection 393(9) of the act is amended by inserting "or suspension" after "revocation" in the third line.

The explanation for that is that it is making the act consistent with subsection 393(8) of the Insurance Act. It has to be amended to provide for revocation or suspension of a licence. It's a technical amendment that's needed to make the provisions consistent.

The Chair: Comments? Shall the government motion carry? Carried.

I have a government motion on subsection 123(2).

Mr Grimmett: Did we confirm that section 123 would carry?

The Chair: I'm going to pass 123 after I consider this other motion as well.

Mr Grimmett: I'm sorry. It's part of the same section.

The Chair: Your second motion; it's number 8 in your package, Mr Grimmett.

Mr Grimmett: I move that subsection 393(10.2) of the Insurance Act, as set out in subsection 123(2) of the bill, be amended by inserting "or suspend" after "revoke" in the fourth line.

This amendment ensures consistency with subsection 383(8). It's a technical amendment needed to make the provisions consistent.

Mr Pouliot: I'm curious. My apologies, but there's a link here. Suspension after revocation: What's the difference between suspension and revocation?

Ms Marilyn Stanley: My name is Marilyn Stanley. I'm a lawyer with the Ministry of Finance. If your licence is suspended, it can be just for a short time. If a company's licence is suspended, it would be for a time period, whereas if it's revoked, it would be taken away for good and has to be reapplied for.

Mr Pouliot: You see, I have to work at these things harder than most. Mike Tyson, the pugilist, the boxer, there was a question whether his licence to exercise his vulgar trade was to be either revoked or suspended. It's quite heavy. If this licence is revoked, then you have to serve some time. There is some time you have to abide before you get reinstated, right?

Mr Wettlaufer: That's a suspension.

Mr Pouliot: Yes, but if your licence is revoked, you have to reapply to get the licence back, or to get that new licence, whatever. But if you are suspended you are not allowed to practise until that suspension is lifted, which is guided by a timetable.

Ms Stanley: That's right.

Mr Pouliot: Why did you add it? It's an addition, right? That's what amendment number 7 says.

Ms Stanley: We just wanted to correct it because the other provisions in that section talk about the suspension or revocation. Somehow in the drafting we missed this terminology. It's just a technical correction. It's nothing new being added.

Mr Pouliot: It is nothing new. When you say it's nothing new, is it there as is? Under the present statute, is it there as is, both?

Ms Stanley: That's my understanding, that this is just a correction.

Mr Pouliot: It's an addition, madame. I'm not trying to be difficult, but please bear with me. It's an addition. It changes —

The Chair: Would it be helpful, Mr Pouliot, to have Mr Grimmett answer that question?

Mr Grimmett: My understanding, Mr Pouliot, is that in drafting the legislation there was a need to change the Insurance Act and it was overlooked in the original draft, but the powers of revocation and the powers of suspension have always been there in the Insurance Act. We're just amending it so that is part of the commission's responsibilities. It's not a new power.

The Chair: Further comments? Shall the government motion carry? Carried.

Shall section 123, as amended, carry? Carried.

Sections 124 to 231: I have no proposed amendments. Shall sections 124 to 231 carry? Carried.

Shall the title of the bill carry? Carried.

Shall the bill, as amended, carry? Carried.

Shall I report the bill, as amended, to the House? Carried.

I'd like to ask for a 15-minute recess of the committee. I'm waiting for the report of the subcommittee — we met this morning at 9:15 — to come back so the full committee can consider the subcommittee report. They're putting it in writing right now and I think we can get that accomplished in a few minutes if we come back in 15. Agreed? Thank you.

The committee recessed from 1051 to 1116.

SUBCOMMITTEE REPORT

The Chair: We're back in session to consider the subcommittee report. I believe everybody has a copy in front of them. It appears to me that what is written here is exactly what the subcommittee agreed on and I want to ask for comments or questions from the caucuses. I have one open issue myself.

Mr Grimmett: Could I just ask, Mr Chair, if it's agreed there will be one day for clause-by-clause?

The Chair: It's agreed, yes.

Mr Grimmett: Is that agreed?

The Chair: That was in the time allocation motion.

Mr Pouliot: I just have it and I'm not splitting hairs; please bear with me. "That the ministry be allotted one hour for the technical briefing," and then, "That each of the opposition caucuses be allotted 30 minutes for questions and/or comments." That's a total of one hour. We're seeking information and assistance, help, clarification in some cases — the three of us, is it not?

The Chair: Sorry, what's your concern?

Mr Pouliot: My concern is to me it doesn't matter, whoever has questions, it need not be that each of the opposition caucuses be allotted 30 minutes for questions and/or comments. We're talking about the ministry briefing here. What if Ted or Wayne and others have questions? Why don't we just submit that and leave an hour.

The Chair: Would you like to make a motion to that effect?

Mr Pouliot: Sure, that an hour be allotted for questions and/or comments.

The Chair: Okay, would you care to move the subcommittee report and then move your amendment to number 2?

Mr Pouliot: Yes, Chair, and you will word it accordingly?

The Chair: Yes. So we're voting on Mr Pouliot's amendment to section 2, that all the caucuses be given 20 minutes for questions and comments when the ministry people are here for their technical briefing, between 11 and 12 on Monday, October 20.

Mr Phillips: Just a comment on it. It actually is quite an important motion. I think I actually did say 20 minutes this morning because I don't view this as opposition-government on these committees. In theory we're here as an all-party legislative committee, not as the government and opposition.

The reason I raise that is I think increasingly we are kind of running a risk that we're getting into, "This is the time for the committee to defend the government and for the opposition to attack the government," and that may be what most often happens. I wanted to mention it's maybe important for us to internalize that a little bit and say, as Mr Pouliot said, "Listen, we're here to see if we can't improve the bill." Oftentimes it's the government members' chance to raise questions with the ministry as well. Anyway, I'm very much in favour of the 20 minutes. It's the way I think we should operate and that each of the caucuses be allocated.

The Chair: Shall the motion carry? Carried.

I have a question as Chair —

Mr Wettlaufer: I have a question.

The Chair: Sorry, Mr Wettlaufer.

Mr Wettlaufer: Is there any reason the week of October 20 was picked over another week, say the following week?

The Chair: It was people's agendas.

Mr Wettlaufer: I'm going to have trouble with that.

The Chair: If we start backtracking now, I think we'll just run into maybe even a worse situation, Mr Wettlaufer.

Mr Phillips: Actually our caucus has its retreat on October 29, 30 and 31.

Mr Ted Chudleigh (Halton North): And we're the week before.

The Chair: My question is regarding number 9, "The caucuses would submit their final list of witnesses to be scheduled on 22 and 23 October 1997 to the clerk of the committee by 12 noon on Monday, 20 October 1997." I want to ask the committee to comment on how they should be prioritized. I'll ask Rosemarie to tell you what she usually does when she gets those lists from the three caucuses.

Clerk of the Committee (Ms Rosemarie Singh): In the past the lists would be prioritized with each caucus as to the witnesses they want scheduled and then we can do a rotation from the Liberal list, NDP list, PC list, whatever order you choose.

The Chair: They take the three lists in order and they just start at the top of each one and go, "One, two, three; one, two, three." That's the normal way they choose the delegations. Is that the way you want it handled or do you want to give some latitude to the Chair?

Mr Wettlaufer: I think we should give latitude to the Chair.

Mr Pouliot: It might surprise you, Mr Chair, with respect, but we're a small group and some of us are difficult to reach. Usually you have a good cross-section. That's what we look for, that mostly by accident the hearings are not loaded with one point of view, and I think we all agree with that. It makes a lot more sense to get different points of view, and seeking equilibrium, balance, we find it by the presenters because they're a cross-section. It pretty well always happens this way. We don't want to slow things down because of process because one or two might be difficult to reach. so you don't get, "Oh, we've still got to get Gilles because he hasn't responded to us, because we'll be in transit, travelling." I'll agree with anything, or anyone, with respect, who is a presenter because I know you will also try to reach me in Manitouwadge — not Manitoulin, Manitouwadge. I don't see any difficulties.

The Chair: Is that process acceptable to the committee?

Mr Chudleigh: To Mr Phillips's point, yes, we are three parties in this place, but we're also advertising and there will be people who come in who are not part of the three lists. I might suggest that we create four lists and select off those four lists one from the Liberals, one from the NDP, one from the government and one from the independent list that came in.

I would suggest also that the Chair have the flexibility that in selecting the names, if it turns out it looks like five presentations in a row are going to be of a similar nature, the Chair has the ability to create some flexibility in that so there are opposing points of view. We've done that in the past and I think it's worked out fairly well. The Chair in its independent capacity in this committee has a responsibility to the committee to ensure that committee list is fair and equitable.

The Chair: On your first point, Mr Chudleigh, it was agreed in the subcommittee that the parties would choose from people who had already applied to the clerk to appear. The party choices will be limited to people who have already applied. There won't be a need for a fourth list because they will be choosing from people who applied through the normal process, who are aware through the parliamentary channel, Ont.Parl, or through the newspaper ads that they want to make a presentation. That's where the three parties will choose from, so there won't be a need for a fourth list.

On your second point, are there any further comments?

Mr Grimmett: This is a suggestion that was given to me by my colleague Isabel. Apparently there wasn't any discussion about whether the Legislative Assembly would pay for witnesses' travel to Toronto. I wasn't even aware that witnesses ever were paid to travel.

The Chair: It's happened in the past when there were people, perhaps individuals or delegations from small groups, who wanted to make presentations and couldn't afford to make the trip. There was a brief discussion with Isabel that most of the groups who want to present on this bill, if not all, will not be impoverished. In other words, they work for municipalities or for businesses and the expense of the trip is not onerous on them.

Mr Grimmett: To be honest with you, I didn't know we ever paid for any groups to come.

The Chair: Historically, it's happened. I don't know if it's happened in our government.

Mr Wettlaufer: Am I to understand then that the recommendation is that we not pay any of the delegations' travelling expenses?

The Chair: I don't have a motion on that.

Mr Wettlaufer: I'll make that motion.

The Chair: Anybody else want to comment on Mr Wettlaufer's motion? Shall the motion carry? Carried.

I wanted to get some direction on the priority lists. We're getting three priority lists from the parties of people who have applied through the clerk's office to appear. The clerk will take one from each list until they basically run out of time. Do you want to give the Chair some latitude working with the clerk to make sure the lists are relatively balanced?

Mr Chudleigh: So moved.

The Chair: Shall the motion carry? Carried.

Any further comments? This committee stands adjourned until the call of the Chair.

The committee adjourned at 1126.

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ISSN 1180-4386

Legislative Assembly of Ontario

First Session, 36th Parliament

Assemblée législative de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Monday 20 October 1997

Journal des débats (Hansard)

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Standing committee on finance and economic affairs

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Published by the Legislative Assembly of Ontario

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Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Monday 20 October 1997

Lundi 20 octobre 1997

The committee met at 1006 in committee room 1.

FAIR MUNICIPAL FINANCE ACT, 1997 (No. 2)

LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS (N^O 2)

Consideration of Bill 149, An Act to continue the reforms begun by the Fair Municipal Finance Act, 1997 and to make other amendments respecting the financing of local governments / Projet de loi 149, Loi continuant les réformes amorcées par la Loi de 1997 sur le financement équitable des municipalités et apportant d'autres modifications relativement au financement des administrations locales.

MINISTRY BRIEFING

The Chair (Mr Terence H. Young): The standing committee on finance and economic affairs is meeting this morning to hear delegations on Bill 149. From 10 until noon, we have three people here from the Ministry of Finance to give us an overview and to answer questions. I'd like you to please identify yourselves for the record.

Mr Tom Sweeting: Good morning. My name's Tom Sweeting. I am acting assistant deputy minister, office of the budget and taxation, Ministry of Finance, and director of the taxation policy branch.

Mr Bill Wong: Good morning. My name is Bill Wong. I'm a manager, tax design and legislation, Ministry of Finance.

Ms Elizabeth Patterson: Good morning. My name is Elizabeth Patterson. I'm the assistant deputy minister responsible for the property assessment division, Ministry of Finance.

The Chair: Please go ahead.

Slide presentation.

Mr Sweeting: You have in front of you a presentation which I will go through with assistance from Bill and Elizabeth, to simply bring the members' attention to the elements of Bill 149. The starting point is a quick summary of Bill 106, the Fair Municipal Finance Act, which received royal assent on May 27, 1997.

It was essentially the foundation for the new assessment system and the tax options for municipalities. It contained a number of the basics for reminding the committee, which included regular or annual assessment updates using current value assessment; the use of rolling averages; municipal power in setting variable tax rates; specified classes of real property for all properties; elimination of the business occupancy tax; measures related to phase-ins of changes in assessment-related tax; property tax relief for low-income seniors and/or low-income disabled; the requirement for designated airport authorities to pay grants in lieu; and also streamlining of the assessment appeal system.

Bill 149, the Fair Municipal Finance Act, 1997 (No. 2), builds on the reforms that the Fair Municipal Finance Act brought into place. The bill ensures fair treatment for seniors and the disabled, farms, small business and other commercial and industrial properties. It continues to focus on more flexibility for municipalities to respond to local priorities. The measures in this bill, coupled with the reforms in the Fair Municipal Finance Act, create a new property tax system that is fairer. Some examples of what happened are:

Bill 106 provided property tax protection for low-income seniors and disabled. The bill extends those deferral and cancellation provisions to include the school portion of property taxes.

Bill 106 also eliminated the business occupancy tax. This bill allows municipalities to set tiers of tax that will allow for lower-valued commercial properties to be taxed at a lower tax rate.

Objects of Bill 149 also include assisting charities and similar organizations by allowing municipalities to offer tax rebates when they occupy commercial property; allowing owners of vacant land and buildings who have incurred no business occupancy tax to retain similar treatment; providing exemptions for small live commercial theatres. Large live commercial theatres and not-for-profit public theatres are granted more consistent tax treatment. International bridges and tunnels are put on a level playing field.

The major provisions of the bill include the creation of subclasses of existing property classes to provide tax reductions for farm land pending development, vacant land and vacant units and excess land. A subclass can also be created for certain live theatres in the new city of Toronto.

It provides for the revaluation of managed forest and conservation lands which become ineligible for the special tax treatment; it mandates municipalities to give tax reduction benefits to subclasses; it permits municipalities to

establish a rebate program to give tax relief to charities and similar organizations occupying commercial or industrial property; it provides assessment exemptions for bridge and tunnel structures and rights of way; for exempted bridge and tunnel structures, it allows for prescribed special payments; it also permits the prescription of a tax rate per acre by geographic area for calculation of taxes on rights of way; it would allow the revenue from the gross receipts tax to be paid to the province; it provides for the prescribing of the sharing of payments in lieu of property tax; it also rewords certain exemptions to clarify their meaning.

Focusing on the main provisions of the bill in a little more detail, it deals with farm land pending development. The property tax treatment for land being farmed pending its being farmed development is going to be changed. The proposal is for a staged tax approach that balances the goals of preserving farm land, encouraging bona fide farming and ensuring reasonable and appropriate municipal contributions. The mechanism is to create subclasses of property so that farm land can be revalued at its current value and then taxed at varying rates at different stages of development.

Bill 149 initially indicated that the structure would be prescribed in regulation. Amendments that have been proposed to Bill 149 and released by the government indicate that there will be included in the act definitions at what point land can no longer be valued as farm land, including when a draft plan of subdivision has been approved, an approved plan of subdivision has been registered or a building permit for non-farm-purpose structures has been issued.

It allows the creation of up to three subclasses of farm land awaiting development instead of the originally contemplated one or two subclasses. It also replaces, as I said, the regulatory power with the legislated reductions, indicating that the tax rate for the first subclass can be between 25% and 50% of the tax rate otherwise payable. For the second class, it can be between 25% and 75%. For the third subclass it would be between 25% and 100%. The range allows for a municipal decision as to the appropriate rate of tax.

Bill 149 also deals with vacant commercial or industrial lands. It proposes that a lower tax rate would apply to vacant units and land and excess land that are in the commercial and industrial classes. This recognizes that pre-reform, these types of vacant land and vacant units were assigned to the lower residential tax rate and there was no business occupancy tax charged. Without the changes in Bill 149, that would have meant that these vacant properties would be paying tax at the full commercial or industrial rate.

The proposed amendment moves from regulation into legislation the tax rate for vacant land and vacant units and excess land. It sets that rate at 70% of the rate otherwise payable in the case of the commercial class, and 65% in the case of industrial land.

Bill 149 also focuses on charities and similar organizations occupying commercial or industrial property. Once again, in the pre-reform system these types of properties were afforded a special recognition. The owners of the property were taxed at the residential rate and as well there was no business occupancy tax paid by the tenants.

Similar to the previous issue of vacant land, once the new system is in place, these would be taxed at the commercial rate. So the bill provides for a rebate that allows municipalities to provide to the charities and similar organizations a reduction in tax directly. This rebate will be applied for by the municipalities and it will apply to both municipal and education taxes.

Once again, released amendments that will be proposed would affect the way Bill 149 deals with charities and similar organizations. Moving from regulation to legislation the ability of municipalities to provide these rebates to the eligible charities, it sets that the rebate can be up to 40% of the taxes otherwise payable.

It indicates that "charities" are defined as "registered charities" for the purposes of the Income Tax Act. It also gives municipalities the power to include "similar organizations," as specified by bylaws they would pass in order to provide for the tax rebate. It indicates that if a municipality has a program, the amount of rebates must be the same for all the organizations. The cost of the rebates that are given will be shared with the upper-tier municipality and school boards.

Bill 149 deals with rights of way. Rights of way owned by railways or utilities will no longer be assessed but will be taxed at a rate per acre. This Bill 149 proposal means the taxes paid by railways and Hydro after reassessment are appropriate and it cushions the impacts on municipalities affected. The amount of tax will be shared with the upper-tier municipality in the same proportion as other commercial taxes are.

Ontario Hydro rights of way used as a transmission or distribution corridor will be treated similar to utility rights of way. The corporation will pay to the municipality a payment in lieu equal to the taxes.

The amendment that has been proposed to be brought forward related to the treatment of rights of ways is the creation and the definition of nine geographic areas in which tax rates would be set for each of the areas, for railway and Hydro rights of way purposes.

Bill 149 also brings forward the previous government announcement that there would be an opportunity for municipalities to adopt tiered commercial tax rates in order to provide potential reductions for lower-valued properties. Upper-tier municipalities may establish two or three bands of assessment and municipalities may then decide at what rate they want to set those bands and at what rate they want to tax them, subject to certain restrictions in terms of the overall treatment of the commercial tax class.

There's also power that the municipality may prescribe additional conditions such as the level of bands in relation to one another and permissible tax rates.

As far as the gross receipts tax, another item that was included in Bill 149: Telephone and telegraph companies have been paying gross receipts tax, which is a tax based

on the total revenue arising from telephone calls, rentals and the use of equipment, for a number of years. Under the existing system, this is a tax that is raised and distributed to the municipalities on the basis of the distribution of the rental phones of the telephone and telegraph companies.

Mr Gerry Phillips (Scarborough-Agincourt): What page are you on?

The Chair: Mr Sweeting, I'm actually having a little trouble following you. Could you please let the committee know when you change pages?

Mr Sweeting: I will; I'm sorry.

The Chair: We're listening to you and we're trying to follow your point form at the same time.

Mr Gilles Pouliot (Lake Nipigon): It's not a compliment that we're following you. We have to —

The Chair: See, you live and breathe this all day every day. But if you could do that, and also —

Mr Phillips: You're keeping the opposition off guard.

The Chair: If you could please let us know when you change pages. Actually, if you could slow down a little too, it would help a little bit, I think.

Mr Sweeting: I could do that.

The Chair: Does everyone have a page 14? I think we can go ahead.

1020

Mr Sweeting: I accept that very good advice, and unfortunately it's not the first time I've ever heard it. I will attempt to bear it in mind.

Slide 14 is where we are now, if everyone is on that page. To recap, the gross receipts tax is a tax that's paid by telephone and telegraph companies doing business in Ontario. It's distributed according to the phone rentals to the municipalities. As part of the Who Does What fiscal swap, the government determined that the revenues from the gross receipts tax would accrue to the province and would not accrue to the municipalities. The bill ensures that happens and it also provides the power for the Minister of Finance to determine the rate of tax that should be payable under the gross receipts tax.

Moving to slide 15, payments in lieu of taxes: Section 149 indicates that provisions of the Municipal Act authorizing heads and beds institutions to make payments to municipalities are changed. It allows the Minister of Finance to prescribe new rates. It also allows that the prescription of rates would continue in the event that an institution such as a hospital closes. Until such time as it would be changing use, it's appropriate to do so.

It also allows the Minister of Finance to determine the appropriate means of sharing of payments in lieu among the municipalities and school boards. While it's not noted here, a draft regulation has been released that actually sets the prescribed heads and beds rate at $75. Just for clarity of the committee, "heads and beds" is a catch phrase used to refer to institutions such as hospitals, schools and jails, where the payments are made at $75 per person or per bed that the institution has.

Slide 16: There's a reference to the impact of 149 on statutory exemptions. A key change here is that property held in trust for an Indian band is being removed from the Assessment Act. This does not affect Indian property on reserves, which continues to be exempt from property tax through federal legislation. However, it does recognize that obsolete and unclear language of the exemption provisions has led to confusion in court decisions, which have extended the original intent of the legislation. This is desired to clarify that, so off-reserve businesses that are competing with non-native-owned businesses will be on a level playing field. However, organizations that currently benefit from this off-reserve treatment will continue to receive that benefit until such time as the use, ownership or occupancy of the land changes.

Slide 17 deals with private and public live theatres in Metro. Bill 149 provides an exemption for eligible small theatres. It allows the minister to create a subclass of the commercial class for eligible theatres in the new city of Toronto. It requires large public theatres in the new city of Toronto occupied by for-profit production companies to make municipal payments in lieu of property taxes.

There have been some amendments proposed that would be brought forward and released that relate to the treatment of theatres. It removes the regulatory power, and instead inscribes in the act the definition of "eligible small theatre." It also removes three other regulation-making powers and inscribes in the act that tax-exempt large live theatres in the city of Toronto, which are predominately used for for-profit live productions, shall make prorated payments in lieu.

It also allows that municipalities can reduce the payments in lieu by any amount of subsidy that is paid by the for-profit production to support other productions or not-for-profit activities that take place on that site. So there were a number of regulatory powers previously in 149 that are being proposed to be covered by amendments to 149.

In terms of international crossings, to provide consistent tax treatment for all international crossings, the international bridge and tunnel structures are exempted from taxation but will be subject to a special payment prescribed by the Minister of Municipal Affairs and Housing. Land and buildings of bridge and tunnel operators in the immediate vicinity of the crossing are liable for municipal taxes but will not be liable for school taxes. The International Bridges Municipal Payments Act, 1981, is repealed as part of this policy change.

To provide consistency with municipalities on the American side of the bridge, the legislation provides for tax adjustments so that, in any year, the total property taxes paid to a municipality on the Canadian side are not less than those paid on the American side of the bridge.

Bill 149 also deals with the situation of where eligible managed forests and conservation lands change their use. This is on slide 19. In order to encourage the retention of land in managed forests and conservation, a tax recovery facility is proposed in 149 that allows going back four years to recapture taxes because the use of what had been otherwise conservation or managed forest land has changed. The assessor is directed to reassess and reclassify the land under this provision. This recognizes that

the former rebate program had a 10-year clawback where lands ceased to be eligible, where you were able to go back under the rebate programs and recapture up to 10 years.

On page 20, the issue of how 149 deals with transition ratios for municipal restructuring: The minister will prescribe transition ratios that have been required under 106, which is the way in which the starting point for the property tax reform tax rates will be determined. There is a need to have special recognition for transition ratios where municipal restructuring takes place. The provision allows for the blending of tax ratios and it also allows the Minister of Finance to ensure that municipal restructuring results in a balanced sharing of tax liability. It's essentially a policy change that's designed to make sure that in amalgamation there isn't a result that sees the shifting of taxes on to what are already unfairly high-taxed classes.

There are a number of technical and consequential changes as well. I'm going to ask Bill to go quickly through those — not too quickly, though — for the committee's knowledge, and then we can take questions.

Mr Wong: On page 21 are the technical and consequential changes. The first one is repeal of apportionment where there is multiple occupancy. This is repealed because of the elimination of the BOT. Also, because of the elimination of the BOT, we don't have to assess against the tenant, but it will be assessed against the owner. Included in the package of amendments, we're providing that these two changes do not come into effect until proclaimed by the Lieutenant Governor. This would maintain the current practice of apportionment and assessing each tenant until the Education Act is changed.

On page 22, we're further protecting low-income seniors and low-income persons with disabilities. This would extend to the payment of school taxes.

The valuation of municipal public utility land: We're eliminating the valuation according to the immediate vicinity, so they can be valued according to the type of property that is being used by the public utility.

The next one is separating the farm lands and managed forests property class into two classes. This is strictly technical, because of the fact that they are two separate classes.

Page 23: Notice the corrections. This allows the supplementary assessment to be issued a subclass. Also, in-year where assessment or classification is changed, the owner will be notified. The owner will be required to notify the tenant where there are any in-year changes.

The assessment of crown lands, just to clarify that: If you're a tenant on land owned by the crown, you will be assessed as if you are an owner, so therefore they will get an assessment notice. For example, where you're a tenant of an airport authority, you will get a notice.

The second point is that if you're an owner of land that is rented to the crown, that portion that is rented to the crown is treated like any other taxable tenant.

1030

Page 24, school support designation: This allows the commissioner to prepare the roll, to identify those properties and owners and to allow them to designate their school support. The proposed changes will direct the commissioner to show the school support on the assessment roll.

Migration of services: The tax billing that's currently being done by the lower-tier municipality may be moved to the upper tier, based on a section in the Municipal Act.

Page 25, upper-tier interim instalments of the property tax: This provision would allow the Minister of Municipal Affairs to vary the percentage limits on the interim payment which is at the beginning of the year. A separate proposal is also available for the upper-tier municipality.

The Assessment Review Board change on section 414 of the Municipal Act is just to allow the appeal of the apportionment of taxes among parcels. It also deletes references to the OMB, because the ARB will be the final court.

Page 26, the last page, is interim local levy. Again, it's to ensure that the 50% limit applies and it also provides that the Minister of Municipal Affairs can vary that amount for 1998.

That is the presentation.

The Chair: Are you going to use the overhead projector for your presentation?

Mr Sweeting: We don't need it now.

The Chair: You were just going to use it for this?

Mr Sweeting: Yes. We've done the presentation. We'd be happy to use it if we were referring back for the committee's benefit, if that would help.

The Chair: We had allotted 20 minutes per caucus for questions. What we'll do is start with the official opposition now, we'll do 20 minutes each, and if there's remaining time and there are remaining issues, we'll carry on accordingly.

Mr Phillips: Can I make a different suggestion, Mr Chair? I think we've got 90 minutes left. Can we do 15 minutes each? I'd like to ask some questions, gather my thoughts and then perhaps ask some additional questions. Could we go around once at 15 minutes and then just start around again, if that's permissible?

The Chair: Is that agreed? Agreed.

Mr Phillips: Thank you, committee, and Mr Chair.

I don't think we've ever been asked to approve legislation knowing as little as we know about how it's going to impact. It is a complete mystery how this thing is going to finally impact on real, live taxpayers, the hardworking people. But that's the way the government wants it and that's how we have to deal with it. I find it unfortunate. I think we're going to find hundreds of thousands of people say, "How in the world did this happen to me?" I gather you still don't to date have any indication of how this is going to impact on anybody.

In terms of questions, the first one I'd like to figure out is the variable rates on commercial properties. I think small businesses are going to be dramatically impacted by this. Small businesses that may be operating in large buildings, that have a small business occupancy tax — it's gone. Can you give me some comfort that if I'm operating

a business and I'm renting facilities in a very large building, how my property taxes are going to be cut with this?

Mr Sweeting: The cut in property taxes under the proposal for tiered rates will relate to the value of the property. If the overall value of the property in which the business is located exceeds the thresholds, the property will not benefit from the reduced tax rates. If it's a large building with a very high value that has a small business tenant located in it, the provision wouldn't apply in that particular case.

The provision was geared to focus primarily on the small standalone retail properties that have tended, under previous attempts at reform, particularly in the Metro Toronto area, to face a lot of taxes — the Danforth strip, the Bloor strip, those kinds of things. There's an ability for municipalities to respond to that with the particular circumstance you raised. As I said, it depends on the value of the property. If the value of the property is beyond the tier, then ultimately that will not be of benefit for the tenant in the process.

Mr Wong: The tiered tax rate will affect that lower portion. Of course, the higher portion of that property will be affected with the higher tax rate. So in the end, it probably balances to one tax rate for the large building.

Mr Phillips: So anybody who's in business, even with a small, little business, but renting space from a larger facility, is not going to see much benefit with this.

Mr Sweeting: The tiered proposal relies on value, so a large property with a high value will not receive a benefit of the lower tier.

Mr Phillips: What's in the legislation here on the value of properties that we're talking about? How will this be tiered? What are some of the numbers?

Mr Sweeting: That's the choice of the municipalities. It's the municipal determination at the upper-tier level what the tiers are and what the distribution of tax rates would be within those tiers.

Mr Phillips: Just give me an example. I live in London. Tell me how this is going to work.

Mr Sweeting: I don't know. I can't say what choices the municipalities would make, but a hypothetical example would be a municipality could choose to say that properties with a value of less than $50,000 and properties with values of less than $100,000 are going to receive lower tax rates, and then they would determine what tax rates would be applied to those values, subject to the overriding consideration that all the taxes in the commercial class are still subject to transition ratios and ranges of fairness. So the choice of the three rates should raise an amount of taxes in the first instance that does not result in an overall tax increase on the commercial sector.

Mr Phillips: I just smile to myself, wondering if anybody understands what you just said there.

The legislation will give each municipality unfettered rights. They can set it at $50,000, $500,000, $5 million? What about the ratios they can set?

Mr Sweeting: The governor on the municipal ability to select rates and ratios at this particular point in time is that the overall amount of tax that's paid by the commercial class in this particular municipality you're talking about — to continue with the hypothetical example, if they set it at $50,000 and the tax rate was 5% and between $50,000 and $100,000 it was 7% and above $100,000 it was 10% — I'm just making up those particular numbers — the total amount of tax raised from that structure cannot exceed what the transition ratios would say the commercial class should pay. In other words, the amount of tax that's there now is the starting point for the commercial class.

It's just a recognition that in trying to provide relief for small business, the end result shouldn't be a shift in taxes from other sectors on to the commercial class, where that class is an already highly taxed class of property. That's the only restriction on municipalities, and it's the upper tier that has the power to determine this.

Mr Phillips: The biggest tax on business, that rate will not be set by the municipality; that will be set by the provincial government.

Mr Sweeting: Are you talking about education?

Mr Phillips: Yes.

Mr Sweeting: Education will be set by the province, yes.

Mr Phillips: That's over half of the property tax on business. Am I correct there?

Mr Sweeting: It varies from municipality to municipality, but I think across the province it's slightly over half.

Mr Phillips: It's about 53%. I'm trying to get an idea of how this will work. The province is collecting 53% of this. Has it stated how it's going to set its rates? Because if they're saying, "We just want a certain sum of money. We don't care how you get it," then presumably on things like the ratios you just talked about in the commercial, they'll just send a bill to the municipality and say, "Give us our money." Is that the expectation?

Mr Sweeting: The rates have not yet been set for commercial and industrial property, nor has the structure of the rates been set. Bill 160 is dealing with the tax-setting power for education.

Mr Phillips: How will that be set, then?

Mr Sweeting: The government has yet to determine exactly how it's going to determine commercial and industrial tax rates, but once it does determine what that rate is, the municipality will set the relevant tax rate for the commercial-industrial property and the money will be forwarded to the school boards. That's the structure of how the tax rate works on the education side. It's not yet determined what exactly the rate of tax will be in the various municipalities.

1040

Mr Phillips: How will that be determined? That's 53% of how much we're raising from the property taxes. Will that be subject to municipal councils approving it?

Mr Sweeting: No, it will not be. The province will set that. Right now, Bill 160 provides the power for the Minister of Finance to determine the tax rate that will be applied for education — rate or rates.

Mr Phillips: That will be submitted to whom for approval, the Legislature?

Mr Sweeting: Right now the power is in regulation for those taxes to be set, and Bill 160.

Mr Phillips: How will the property taxpayer have any say in that, then?

Mr Sweeting: The property taxpayer will have a say through the provincial government. It's a provincial source of revenue, as a result of the changes they brought in, so the same way the taxpayer has a say with respect to any proposal on a provincial tax.

Mr Phillips: Is this the first time the provincial government has directly set a property tax rate?

Mr Sweeting: I believe so. It happened in unorganized areas, the provincial land tax.

Mr Phillips: Are there any legal impediments to that? I always thought property tax rates were set by the municipalities.

Mr Sweeting: No, there's no legal impediment.

Mr Phillips: That's a legal opinion?

Mr Sweeting: Certainly the legislation has been introduced with no indication that there's a concern about the ability of the province to determine tax rates. I'd have to get someone else to have more discussion on that. That is a 160 discussion, although I'm sure you can relate it to 149. But if you want to pursue that more, I would prefer someone else to answer that.

Mr Phillips: I wouldn't mind, because I had in my memory that setting property tax rates was a municipal responsibility, but now the province —

Mr Sweeting: It's a municipal responsibility, but it's created by provincial statute that allows for it. In that sense it has always been a provincial responsibility that has been delegated.

Mr Phillips: To change the subject a little bit, the deferral of taxes on seniors, persons with disabilities and — was there another group in there?

Mr Wong: Low-income people.

Mr Phillips: Yes. Is that a deferral, or will low-income people have a permanently lower tax?

Mr Wong: It is a tax relief program that can be a deferral or a tax cancellation or any other tax relief, that will be determined by the municipality.

Mr Phillips: So if I'm the municipality, I can say low-income people have a lower tax rate?

Mr Wong: You can defer it or you can write it off or cancel it, or you could have a lower tax rate if you wanted. But it's a tax relief program that they can have.

Mr Phillips: Does this commit the province to match it? Because the province is also getting 25% or 26% of the residential.

Mr Wong: Indirectly it is, because Bill 149 captures the education portion that can be deferred or have tax relief.

Mr Phillips: My worry would be, can you assure us the province won't simply say: "We want to raise $2.5 billion a year from educational and residential property taxes. You give a cut there and make it up elsewhere"? Or is the cut coming right off the $2.5 billion?

Mr Sweeting: I'm not able to answer that question, not necessarily because I couldn't give assurances, but the government has said that it's intending to raise $2.5 billion out of residential education tax rates, setting them at 50% of what used to be raised in revenue. But the rates have not yet been set. The government will make decisions around setting the rates and determining the amount of money that's raised and will have to take into account an issue like the one you have raised.

Mr Phillips: What I'm getting at is we're being asked to approve this bill, and based on the answer you just gave me I'll assume that if a municipality said, "For people with low income in our particular community, we're simply going to give them a lower tax rate," the province is saying, "You do that, and you make it up on the rest of the residential property taxpayers."

Mr Sweeting: Yes, certainly that's an option in terms of determining what the rate will be. It will take into account what is the composition of the $2.5 billion.

Mr Phillips: It's not an option if the province is saying, "We are going to tell municipalities in this province we want X amount of money." If the municipality says, "We're going to give low-income people a break," the province says, "You do that; make it up on others."

Mr Sweeting: If the province is setting a uniform rate for residential purposes province-wide — that has been the proposal; it hasn't yet said what the actual rate is. The rate will be the same in every municipality, in every part of the province, according to Bill 160. So the ability to do that is substantially circumscribed to go into a municipality — we don't have the authority to tell them what to do with their tax under the act. The government will be able to indicate a rate of tax for education, it will set it and that will be the amount of money that's raised. What will be taken into account in setting that rate is, as a minimum, the government has indicated $2.5 billion is the intention to raise, because it's planning as part of the Who Does What swap to raise 50% of the current education tax revenue.

Mr Phillips: I've looked at the uniform mill rate on multi- and single-family. If the province is saying, "We're going to raise $2.5 billion," it looks to me like there's probably about a $300-million shift from multi-res to single-family properties.

Mr Sweeting: Actually, I don't have a number with me on the size of the shift. It is a number that you've asked and we are developing, but in principle, a uniform rate that treats res and multi-res will have the effect of shifting taxes that are currently paid by multi-res, which are substantially higher, typically, than taxes paid by residential.

Mr Phillips: It's $300 million, right? I'm just trying to get an idea of how much — the province has said: "We want $2.5 billion. We're going to have a single rate." It looks to me like within that $2.5 billion, $300 million goes from multi-res over to be raised on single-family residences.

Mr Sweeting: I'll have to get you an answer on that. I don't have an answer with me .

Mr Phillips: What is the reason on the first nations issue of eliminating —

Mr Sweeting: — the off-reserve division?

Mr Phillips: Yes, the off-reserve.

Mr Sweeting: The intent of that change is to recognize that where native-owned corporations located off-reserve are in competition with other types of businesses, there will be similar tax treatment. It's a change that I think Ontario is the last province to eliminate. It's the provision that led to what has been argued to be a questionable extension of the provisions of the federal legislation to allow this exemption to take place, so we're simply getting in line with what all the other provinces are doing, that ensures that the property tax treatment eligible for natives is the treatment on the reserve.

Mr Phillips: The payments in lieu of taxes, does this impact at all on any of the federal government payment in lieu of taxes?

Mr Sweeting: Yes, it impacts. Property tax impacts on the federal government payments in lieu in the sense that those payments in lieu could change as assessment changes and municipal tax changes or responses to that work their way through the system. In terms of the treatment of federal PILs, there's a provision in here that allows the minister to determine the appropriate sharing of the federal money between lower tier, upper tier and school boards.

Mr Phillips: Why would you have never mentioned that in here? I've never seen — or did I simply miss it when we were going through it?

Mr Sweeting: It was on page 15 of the slides.

Mr Phillips: I don't see the word "federal" in here at all.

Mr Sweeting: It's not. Sharing of payments in lieu encompasses the federal government as well. Payments in lieu are paid by the federal government as well as other entities.

1050

Mr Phillips: So in a place like Ottawa, which I gather currently gets substantial payments from the federal government, the minister will now give himself the authority to determine where that money goes?

Mr Sweeting: That's correct. Ottawa is an example where there are substantial federal payments in lieu that are currently not, for example, distributed to school boards, if I'm recalling correctly. That's a particular area where there's an issue.

Mr Phillips: The word "federal" had never come in. I guess you just assumed.

Mr Sweeting: I did; I'm sorry. I apologize for that, if that wasn't clear enough. It includes federal in terms of payments in lieu.

Mr Phillips: The whole bill is extraordinary in that the devil is in the regulations. I've never seen where the government has given itself the authority to set $6 billion worth of property tax by regulation. On page 12, there's the word that the minister will set the "appropriate" rate, I guess — yes, "ensure that the taxes paid are appropriate." I gather the minister makes that determination. What is the reason why this is essentially taxation by regulation?

Mr Sweeting: The reference to the $6 billion, of course, is again Bill 160. That's the source of the government's power to levy education taxes for provincial purposes. I think you will see that there has been a response by the minister through the draft amendments that have been released and would be proposed that would move some of the matters — I did mention those in my briefing — from the regulations to the legislation, to ensure that as many matters as possible are dealt with.

One of the reasons why there are regulatory powers is that in order to set tax rates we need to have relatively final or else final assessment data. That data is not yet available. It will be available relatively shortly, it is anticipated. So the power allows the minister to take into account the next round of assessment data and to determine those tax rates. There are obviously a variety of regulatory powers associated with many statutes, but certainly in terms of setting the tax rates — you referred to Bill 160. Part of that is a recognition that until we have more up-to-date assessments, we cannot finalize what the tax rates will be.

Mr Phillips: So it is because we don't have the up-to-date assessments?

Mr Sweeting: That's one of the reasons, yes.

Mr Phillips: Then why wouldn't we make it for this year only we'll do it this way, and then do it in some more public way in the future?

Mr Sweeting: That's certainly an option, Mr Phillips. Perhaps the committee will entertain that as something. It's an option, just do it one time and then in future years require it to be done in legislation.

The Chair: Mr Phillips, earlier, when we agreed to the time changes, I may have misunderstood. I apologize if I did. I thought the committee had agreed to 30 minutes per caucus.

Mr Phillips: I thought it was 15, 15, 15.

The Chair: Okay, I apologize. You've now had 20 minutes. Would the committee agree to go 20, 20, 20 and then 10, 10, 10?

Mr Phillips: It doesn't matter to me. Or you can just give us 10 at the end, either way.

The Chair: How do you want to handle it?

Interjection: Anything to accommodate you.

The Chair: Do you want to complete that thought, or should we go to the NDP caucus now for 20 minutes?

Mr Phillips: Go to the NDP caucus.

Mr Pouliot: I certainly welcome the opportunity, but more importantly, Mr Phillips was on a roll, trying to get answers for, if not all, most members of the committee vis-à-vis not only this — because 149 does not work in isolation. Both have been kept in the dark. I was expecting that we would spend some time this morning, Mr Chairman, on reviewing impact studies that you must have in your possession, in your hands at this time, because when the rubber hits the road, when it hits the street in the real world, that you profess to know, Mr Deputy Minister —

Mr Sweeting: Not quite.

Mr Pouliot: How will it impact? When will implementation take place? Give me a date on 149, and please

don't tell me the platitude of "When it receives royal assent."

Mr Sweeting: I can't predict when Bill 149 will be passed. Clearly, that's at the wishes of the House. The intention is to have the new property tax system effective for 1998.

Mr Pouliot: January 1998.

Mr Sweeting: That's correct. It is anticipated that there will be some decisions. Municipalities are not required to finalize some of their elements of it until into 1998, because interim billings will carry the system through into the early part of the year.

Mr Pouliot: Thank you. Such a wise person at such an early age.

So you won't pass the threshold that says: "Depending. We cannot anticipate what the Legislative Assembly will do." Here is what they shall do: They will move time allocation, in other words, a gag order, closure. They will make sure that at the of the day the majority shall have its way. They have been somewhat consistent in doing this.

We're not expecting that many more amendments on 149, so implementation takes place in January. You've mentioned the word "interim." So municipalities will take the general purpose of the previous year and go to the full limit of 50% to generate some funds for January, February, March until they strike the final levy. Is that right?

Mr Sweeting: That's right.

Mr Pouliot: The assessment tapes — and I understand there are some 3.7 million or 3.8 million units being looked at, being assessed. It's also my understanding that it's the largest undertaking of this kind in North America, so it is vital, if not to set the tax rate, certainly to know where the dollars are going to come. You have to mesh, you have to blend, you have to web 149 with the tapes coming out. Am I right?

Mr Sweeting: That's correct. The assessment information is needed in order for municipalities to make the decisions they need to make and for taxes to be assigned.

Mr Pouliot: I see. So April 1, April 30, May 31, when will the —

Ms Patterson: Information will be available by late January on individual properties. Individual property owners will get a notice of assessment that tells them the value that has been placed on their property beginning at the end of January. The mailing will begin at the end of January. At the same time, municipalities will get a copy of the tape that's used to produce those notices, so they'll know what the values of individual properties are and they can start to make decisions around phase-in, for example, of some of these other alternatives that are available to them, like tiered tax rates.

There's a period between January and the beginning of April when there will be lots of opportunities for individual property owners to meet with assessors and review the values that have been placed on their property, so we can ensure that they understand and believe we've got the values right. Then we'll produce assessment rolls. It takes about three weeks to produce them, so at about the beginning of April we'll produce final assessment rolls that reflect any changes that have been brought to our attention by taxpayers across the province and deliver final assessment rolls to municipalities before or on April 30, and they can use those for their final instalment billings after they've set their final budgets.

Mr Pouliot: You see, Elizabeth, what concerns me — not me so much as many, in fact most people — is that as you move to your fair taxation, to 149 implementation, proposed in January, you also have a massive assessment and reassessment. At the same time you have new responsibilities for municipalities, which is a devolution from the powers of the province and the new responsibilities of the municipality. All this — and it is consequential indeed, impacting — is happening at once. When we ask questions on any one of those particular endeavours — and people mean well — we fail to be able to give answers that are substantial.

1100

For instance — I know it's not related to you — I just finished a week in the north, where I met with some reeves, mayors and their council members and asked them candidly: "You're less than two and a half months before devolution. How are you doing on policing? What will the cost be?" They said: "We do have the cost here. The province says the OPP costs so much." I said: "How will you pay the police people in January? Will you be billed directly? Do you have a contractual arrangement with the OPP? Do you have a choice to go outside the OPP?" Let's keep in mind that those are people who have served well for a number of years, so they know the territory, they know the way small-town politics works.

Then you turn around and you ask about the drug formulary. You see, the billing among doctors in the past month, month and a half, has gone up. It's pretty difficult to go to a doctor's office without coming out of there with a prescription, so the prescriptions, the drug program, has gone up also. Add to it the demographics. Now you're picking up 50% of the welfare of these social assistance people. Some of them didn't even know that.

Then we talked about ambulance services. They go and see the upper tier, and they've got three bases, three small municipalities. I find it difficult that at this stage of the game — when I say, "kept in the dark," this is the kind of scenario we've had. At this time, we should know. You would not, you three, and others, conduct your individual businesses this way. It would be impossible. You wouldn't wish to, because this is consequential.

So I'm to depend, Elizabeth, on the interim tax levy to carry me until June? And the interim tax levy is 50% of general purpose. What am I going to do? Am I going to beat a path from the municipal office to the chartered banks? Where's the money going to come from to pay for all this?

Okay, rights of way. You have designated, I think it's eight or nine regions.

Mr Sweeting: Nine.

Mr Pouliot: Within that convention, each region will be assessed so much per acre. So in our special part, the

assessment per acre vis-à-vis rights of way would be the same in Thunder Bay, Sudbury and Manitouwadge, right?

Mr Sweeting: I don't know whether those are all in one region, but assuming they are, then the tax that would be paid per acre would be the same in all those three.

Mr Pouliot: But with respect, Tom, it's vast and magnificent; it's huge tracts of land here. If you only have nine regions, we assume that some of those regions will be very large, geographically speaking. The true value of a right of way can differ greatly within the same region, yet it's the same price per acre. Is that what you call fair?

Mr Sweeting: I think the government's proposal is that it's reasonable and fair to try to treat rights of way in a way that's more consistent than the current up-and-down, all-over-the-place, unexplainable kind of system that exists now, as it moves from municipality to municipality. Certainly there is an argument that nine regions is a fairer way of taxing than the hodgepodge that exists now.

Mr Pouliot: You should lighten up, with respect, because you don't really believe in this, when you say "fair." But then again, I don't blame you. I know from where you must come. You see, every bill that we're presented with starts — they have a choice. They put all the bills in two hats. One says "job creation" and the other one talks about "fairness." The bill is three pages long and the regulations are 56 pages long, but then we don't have access to those regulations. Almost inevitably, it gives a lot of power to the commissar — I mean to the minister. They've given themselves a lot of power.

Native Canadians: Am I right that if they are off reserve, first nations have ABC company, and they conduct businesses outside the reserve, the municipalities will now have the opportunity to levy them, to tax them?

Mr Wong: No, they are grandfathered.

Mr Pouliot: They are grandparented.

Mr Wong: Yes, the ones that currently exist are grandparented. So only new ones.

Mr Pouliot: The bogeyman is a bogeyperson, in our caucus. Can you imagine that?

In other words, they're grandparented. What if tomorrow the same first nation opens a business? You've just said it: They would be liable to taxation, would they not?

Mr Sweeting: Off reserve.

Mr Pouliot: Yes, off reserve. Of course, if one is grandparented, you can't have it eight different ways. Okay. So those who are already in business will not be retro and they will not be taxable in the future?

Mr Wong: As long as it's still held by the same organization, doing the same thing.

Mr Pouliot: Mr Phillips mentioned the business occupancy tax. I want to come back to Toronto. The bank towers benefit. On the business occupancy tax, their rate is reduced significantly, right?

Mr Sweeting: Banks currently pay one of the higher rates of business occupancy tax, yes.

Mr Pouliot: They pay 75% on the rate, on the formula, don't they?

Mr Wong: The bank tower itself many times consists of tenants who are not banking institutions but other small businesses, so they do not, as a tower itself.

Mr Pouliot: Forget about the banks. Let's enlarge it and say large industrial. It could be a car plant in Oshawa. They will benefit greatly by the reduction in the BOT, right?

Mr Sweeting: Again, industrial properties paid a higher rate of tax, so assuming that the municipalities recapture the same amount of money, yes.

Mr Pouliot: So the province will dictate or set the education levy.

Mr Sweeting: Yes.

Mr Pouliot: You've indicated that grosso modo, in many cases, 50% could be an acceptable figure, anywhere from 40% to 60%. The remaining portion goes to cities, towns. Will the municipalities have the ability under 149 to establish a subclass tax levy to make up the difference vis-à-vis the large industrial? Will they have that ability? What revenue they will lose under the BOT, will they be able to establish a subclass to go and pick that levy up?

Mr Wong: Under the current situation the municipality may set a tax rate that will recover any or all portions from an individual business class. So if they were losing 60% of the BOT from the industrial class, they can still set a tax rate that will capture it from the industrial class.

Mr Pouliot: So they still have the ability to determine the mill rate, industrial, so they'll just adjust the multiplier. Is that what you're saying?

Mr Sweeting: The intention is that it will be moved from a tax on tenants — the municipality will have an opportunity, if they wish, to recapture that tax from owners. The structure of property tax reform and the transition ratios will allow them to replicate the current situation, if that is where they want it as a starting point. It will also allow them to move and shift taxes between classes of property. But they could conceivably recapture from the owners of the property the tax that's currently paid by tenants.

Mr Pouliot: So hypothetically, or really not so hypothetically, a municipal government that obviously needs revenues could say, "Okay, the province has decreed under 149 that you save so much money under the business occupancy tax, but we will adjust the mill rate — we have jurisdictional capacity to do that — and recoup the exact number of dollars under the industrial tax"?

Mr Sweeting: It's possible, yes.

Mr Pouliot: It will be done. Stay tuned. I'm sure the presenters in the next four days will tell us about their fear. So there are really no changes there. It's either that or I pass it along to Ms Jones and Harry Smith, who are single-dwelling.

Mr Sweeting: There is an opportunity. For some municipalities, that will be the opportunity they face, to replicate the existing distribution of taxes between classes, or to determine that some of it should go from, for example, commercial on to residential. For other municipalities that are within the ranges of fairness, that the government has yet to determine, they may have an option to shift taxes

from the residential class, potentially, on to the commercial class.

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Mr Pouliot: Do you have an impact study?

Mr Sweeting: I do not have an impact study. The information that's available is the information that the government has put out. There's information on assessments. As Elizabeth said, the information property by property is anticipated in January some time.

Mr Pouliot: So you have commissioned an impact study.

Mr Sweeting: No, part of the assessment reform exercise, the redoing of assessments, is to get it to a point where, as Elizabeth said, you can indicate a value for each and every property in the province. Those values will be made available. Those are the values that people will assess the impact of tax reform from.

Mr Pouliot: This will be available, for your eyes only, perhaps — Tom, bear with me, please. If I read you correctly, Monsieur Deputy Minister, the show starts on January 1 and your impact study will reach you some time in January?

Mr Sweeting: The tax reform is effective for the 1998 tax year. That's the tax year. As we indicated, the early part of the tax year will be covered by interim billings, so the money will flow by interim billings.

The Chair: Mr Pouliot, that's your initial 20 minutes. I'm going to move to the government caucus.

I just want to remind the parties, by virtue of the subcommittee agreement, subsequently the committee's agreement, the caucuses are to submit their final list of witnesses by noon to the clerk of the committee. The clerk sent out this list of witnesses with an "n" beside new ones that had come in the last couple of days. However, I should tell you we have 20 places available for Wednesday and Thursday, and 23 applicants, so there's a good chance everybody will have an opportunity to appear anyway. I've already had notice I might have a vacancy tomorrow morning. I just wanted to remind you.

Mr Toby Barrett (Norfolk): I also have a question with respect to property owned by native reserves. We know that land on reserves is exempt from property taxes, and that makes sense because area municipalities are not providing services to the reserve and education is funded by the federal government. What I see in this finance act is an amendment to close what I consider a loophole, where land is being purchased by reserves, I think "in trust" is the expression they use. The land at present does not pay taxes, and I understand now that Ontario is the only jurisdiction in Canada where this is the case. I understand Manitoba, BC and Saskatchewan have repealed this.

I wanted to get an idea to what extent land is being purchased by native reserves in Ontario. My riding is near both the New Credit and the Six Nations reserves. There are some purchases. To what extent is land being purchased and what is it being purchased for? Is it being purchased as farm land? Is it being purchased to set up commercial property along the side of the road or to develop shopping malls?

Mr Sweeting: I don't actually have specifics. There's certain anecdotal information about purchases by native reserve bands. As I said, this is a future or forward-looking provision which intends to create equal treatment for essentially competing businesses receiving similar levels of service from the municipalities. The property tax reform and assessment reform allowed an opportunity to level playing fields wherever possible and appropriate. It was the government's view that this is an area where there should not be a special ability for one type of business, depending on its ownership, to have a competitive advantage relative to another type of business. It is true, as you said, that all the other jurisdictions in Canada have moved to deal with that.

Right now, there is an estimate that there's about $125,000 in municipal taxes that are forgone with respect to some 290 properties. Those properties, as we said, would be grandparented. But that's an example of the size of the issue.

Mr Barrett: I could understand perhaps purchasing land immediately adjacent to the reserve. I have a concern because theoretically land could be purchased 100 miles away and still owned by —

Mr Sweeting: Under the current act, that would be available for the exemption.

Mr Barrett: I see.

Mr Bill Grimmett (Muskoka-Georgian Bay): I wonder if I might ask a few questions about some of these, I would call them more obscure assessment issues, like payments in lieu, rights of way and the gross receipt tax.

On the rights-of-way issue, my opposition colleagues have raised some good issues. The legislation talks about setting up different regions in the province and allocating a rate per acre. I wonder if one of you want to talk about the kinds of entities that are affected and that this issue of rights of way deals with, and how such a regime might contrast with the current setup, the way they pay now.

Mr Sweeting: Certainly. As I indicated previously, the current system of taxation of railway rights of way, for example, is a market-value-based assessment system utilizing abutting land values, which is, in the view of many, an unfair way to try and value these properties. They simply do not have the same ability to market these by their physical characteristics. Since it's assessed and then taxed at municipal tax rates, this has resulted in a veritable hodgepodge of tax rates paid by rail lines as they move from municipality to municipality.

The proposal is to divide the province into nine regions, and within that region to have the tax per acre paid the same, and every municipality would get an amount of money based on how many acres of rail line they have that passes through them. The main lines and the shortlines would all pay the same rate of tax when they're within that geographic entity.

Mr Grimmett: What is the practical impact of the new regime in contrast with the old regime? We're talking primarily about what kind of companies?

Mr Sweeting: The stated intent of the legislative proposal is to protect rights of way from facing reform-

related increases in taxes. There's a desire to try and maintain the tax burden that's paid by rail lines. There have been experiences where in previous reforms taxes have jumped significantly on rail lines as a result of an assessment reform. I think the minister referred in his statement to a 500% increase in tax in Halton as a result of reassessment that impacted on rights of way.

The intention is to prevent this from being the source of a tax increase for these particular types of properties, but the actual structure of the rates is something the government hasn't yet determined. It will be made available in the near future.

Mr Grimmett: If I could move to payments in lieu, how will the provincial and federal governments be affected by the legislation and how does it relate to the education portion of the property tax?

Mr Sweeting: The province of Ontario makes payments in lieu in respect of its provincially owned properties. It will continue to do so. It will pay the payments in lieu that are appropriate as a result of the assessment reform changes. So we have to bring in assessment reform and see what impact that would have on the buildings that are owned by the province, and then the province will pay a payment in lieu in respect of that.

As I indicated, there will continue to be payments in lieu paid by heads and beds institutions, which are such things as schools, hospitals and jails, and the draft regulation that's proposed is that they continue to pay these at $75.

The government is also, by virtue of the legislation, indicating that it will make payments in lieu in a situation where it currently doesn't. If it is a tenant in a property owned by a municipality or the federal government, they currently do not make payments in lieu, and it's indicated that they will make payments in lieu.

There's also power for the government to determine the sharing of payments in lieu that will take place, which include federal payments in lieu, among the municipalities and the school boards. There has been no decision made by the government yet in terms of the sharing.

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Mr Grimmett: Do the federal payments in lieu currently include a component for education?

Mr Sweeting: They do. They currently include a component for legislation, but they're also subject to federal determination as to what is an appropriate amount to pay, so the federal government has the ability, and in fact in the past has set payments in lieu at an amount that they feel is appropriate to pay. We cannot make the federal government make payments in lieu.

Mr Grimmett: Can we move, then, to the gross receipts tax. That's now going to be collected by the province. Why would that change be taking place?

Mr Sweeting: Sorry?

Mr Grimmett: Why would we now be taking that at the provincial level?

Mr Sweeting: Essentially, in working through the Who Does What fiscal swap and the intention of the government to produce a result that is fair to both municipalities and the province in terms of the changing of responsibilities and the changing of flows of revenue, the decision was made that the gross receipts tax would be part of making sure that the final result was fair to the province.

Mr Grimmett: When we're talking about the gross receipts tax, the biggest impact, I take it, is on Bell Canada.

Mr Sweeting: That's correct. They are the largest telephone and telegraph company in the province.

Mr Grimmett: I understand they have not been particularly enamoured by the way the tax has been administered in the past. What have been their criticisms?

Mr Sweeting: I'm not sure if they will be here to indicate their concerns directly, but certainly criticisms of the tax in the past have included the fact that it applies to telephone companies as opposed to a broader range of what could be argued to be similar competing companies in the telecommunications range. There has been criticism of the method of distribution of the tax, which relates to phone rentals, which is a relatively outdated mode of maintaining telephone services. Those kinds of issues have been raised previously as criticisms of the tax.

Mr Grimmett: So now they're going to be just paying one bill, is that right?

Mr Sweeting: The intention would be that there would be one bill paid to the province, at a rate to be determined — on the same basis they're currently paying is what it's proposed to be.

Mr Grimmett: I wonder if you could provide us with your views on how municipalities are likely to deal with the tiered commercial rates. What are the likely thresholds they would come up with and what impact does that have on small businesses?

Mr Sweeting: I would not be able to speculate on what municipalities will do in response to this. I can indicate that the legislation provides them with the ability to, for a commercial class of property, set up to three tiers of tax. That is a mechanism that would allow them to tax lower-valued properties at a lower rate and if they wanted to recapture the revenue, recapture it from a tax rate set on the higher-valued properties. The intention is that it's a graduated system: so much on the first, so much on the second and then a tax on the remainder. Again, as I indicated, the total amount of tax that's paid by all tiers in the commercial class would still be subjected to all the requirements that are associated with the commercial class of property in its relationship to the residential class of property, as determined through transition ratios and tax ratios.

Municipalities will have a choice to determine if they want to have property owners of low-valued properties pay smaller amounts of tax than would otherwise be the case. That will be a local decision, as to how much they do that. It's quite possible that the threshold that would be picked would vary from municipality to municipality as the value of commercial property varies from municipality to municipality around the province.

Mr Ed Doyle (Wentworth East): On page 7, you say: "The property tax treatment for land being farmed pending its being farmed development would be changed.

"A staged approach in the tax treatment of land being farmed, pending its development is proposed that:

"preserves farm land,

"encourages bona fide farming, and

"ensures reasonable and appropriate municipal contributions."

I wonder if you could explain to us the plan for preserving farm land and, for example, somebody who owns a piece of farm land but rents it to another person for farming uses, yet lives on the property — could you give me some detail on how all this will work?

Mr Sweeting: The proposal is that municipalities will have more ability to determine the amount of tax that should be paid as land goes through the development process. Land is typically farmed as it enters into the development process, and the intention is to continue to encourage the farming of land until the point at which it is no longer appropriate or reasonable to do so. Indeed, there are a number of court arguments that take place currently around whether or not land should continue to be valued as farm land even quite late in what we would consider to be the development process.

This tries to put a little order and certainty around that by indicating that at the point at which a draft plan of subdivision is determined, the land will be revalued from land at farm value to land on owner-to-owner sales for development purposes. It then also allows municipalities to set a tax rate between 25% and 50% of what the tax rate would be for the zoned purpose of that land. This is an attempt to balance the objectives of encouraging farming and the nature of the development process, at the same time as respecting municipalities' desire to achieve appropriate amounts of money from land that's going through the development process, whose value is rising.

As far as land leased, I'll let Bill handle that question.

Mr Wong: Land leased by a farmer to be farmed by another farmer will continue to be valued as farm land, because it's a continuation of what's being done at this moment. So they will have the lower tax liability, because they'd be valued at a lower rate, and they'd be taxed at 25% if they're eligible for the farm tax class.

Mr Doyle: Okay, so if I owned a farm and farmed it myself, it would be no different than if I owned the farm, lived on the property and allowed someone else to use it as farm land.

Mr Wong: That's correct.

Mr Doyle: If I can get on to something else, I wonder if you could explain to us what provisions are available to municipalities, for example, to ensure that small business is treated on a fair basis. It's a pretty general question, but I wouldn't mind a detailed answer.

Mr Sweeting: The municipal ability to respond to small business concerns is primarily achieved through the ability to tier the commercial rates that were talked about earlier. To the extent to which properties are lower in value, municipalities can provide the owner of those properties with lower rates of tax than would otherwise be the case. There are a number of circumstances of standalone small-business-owned properties that this provision would be able to benefit. There are also tentative situations in certain buildings with low value that would be of value to the small business tenants.

The elimination of the business occupancy tax also has some benefits for small business. Some small businesses paid lower rates of business occupancy tax, so there's some potential that change would raise taxes, but a number of small businesses paid the higher rates of tax. The 50%, 60% rates of tax were paid by a number of small business property owners. So the elimination of those rates of tax through the business occupancy tax would be of benefit to those types of small business.

There will be small businesses that benefit from assessment reform because they've been occupying property that's been overassessed relative to other property, and so will come down. It is anticipated there will be a number of small businesses that will benefit from property tax reform, and of course municipalities, if they choose, in areas where business has been highly taxed for a long period of time, under the variable tax ratios and tax-setting powers municipalities have, will be able to bring down taxes on business in general, which would include small business as well.

Mr Doyle: You may have answered this before. Pardon me if I missed the reply. I wonder if you could tell me when the municipalities are going to be getting more information on assessment.

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Ms Patterson: Municipalities were given a preliminary release of information at the beginning of August, when the initial numbers for service transfer were produced. At that point in the assessment delivery process, we had investigated most of the sales that occurred in Ontario in 1996, which is the base year for the reassessment, this being implemented in order to do some analysis of those sales and then to generate values on properties that hadn't sold. So we were at that point, and the information we gave them was based on that sales information. To the extent that we couldn't get a reliable sample from the number of sales because there just hadn't been enough sales on some property classes in some municipalities, we supplemented that with valuations that were done by assessors. The bulk of that information came from actual sales that occurred in 1996.

There's an expectation that we will be updating that when we have a significant proportion of actual current values on properties. Municipalities are expecting that update around the end of November. That information won't be on a property-by-property basis; it will still give them some ideas about the impact on a property class in each municipality, so they'll know what's going to happen with their commercial class, but not with respect to a specific property.

As I indicated, the information will be available on a property-by-property basis by the end of January, and at that point notices will begin to go out to individual prop-

erty owners describing the value that's been placed on their property. Because of all the change that is occurring, they'll have a fairly long window for public education, an opportunity to discuss those assessments with assessors and get any difficulties resolved, with a view to beginning to produce the final assessment rolls at the beginning of April for delivery at the end of that month. That's the basic time frame for information delivery.

The Chair: We're going to move to the Liberal caucus for 10 minutes.

Mr Phillips: Just in terms of appeal — because I think there's going to be some widespread interest — it will only be when people get their actual tax bill they'll have any idea of what this means to them. From the time they get their actual tax bill, how much time do they have to appeal their property assessment?

Ms Patterson: The last day for appealing assessments is June 29, so between the return of the assessment roll, they'll have about two months to dispute the value of their property. I don't know when municipalities will be issuing final tax bills, but as soon as they can produce —

Mr Phillips: So that's the answer, June 29.

Ms Patterson: June 29 is the last day to appeal. There will probably be between March 1 and that time when they'll be aware of the value that's been placed on their property, and they'll have opportunities for informal resolution with the assessors.

Mr Phillips: No, it's when they get the tax bill.

The small business thing worries me a lot, because as Mr Wong just said, an awful lot of small businesses are in bank towers and all sorts of buildings like major industrial malls, all those sorts of things. The way I understand the legislation is that the tax break comes not on the basis of the size of your building but on the basis of where you rent your property from. If you rent from a really small standalone owner, you'll have a lower property tax; if you rent from a large owner, you'll have a larger property tax.

I'm trying to get an idea, and I can't find it in the proposed amendments, of what the ranges are that you propose for commercial properties. Is it anywhere in the amendments or the bill itself?

Mr Sweeting: It's up to the municipalities. The province is not going to determine what the ranges would be. I used the hypothetical example of $50,000 and $100,000. It could be $50,000 and $500,000; it could be $200,000 and $800,000; it could be $100,000 and $200,000. It's really going to be local choice, subject to what they feel is appropriate in their community for these kinds of things.

Mr Phillips: One of the intents of the bill was to simplify things. Have you looked at the possibility or the likelihood that this will create a legal bonanza for property owners simply deciding to have, instead of one owner, 10 different corporations owning the building so they can benefit from this new taxation based on the value of property rather than on anything else?

Mr Sweeting: I can simply indicate that you're right, in a system based on value, one of the potential impacts is the incentive or the potential interest on the part of owners to get down the values of their property through creating two properties, and that sort of thing.

Mr Phillips: What are we trying to get at with this new proposal? What businesses are we trying to help? You've mentioned little standalone restaurants. Who do we think we're helping with this proposal?

Mr Sweeting: Generally speaking, there is an opportunity to help small business with this proposal. As well, there's an opportunity to deal with what has been an issue previously. The treatment of neighbourhood strip properties in Toronto, because of the outdated nature of assessment and the potential for changes to impact — this is a mechanism by which the new city of Toronto would be able to manage the change in tax that occurs for the neighbourhood strip type of properties, which are typified by —

Mr Phillips: Aren't we really rewarding owners of lower-valued properties, not businesses?

Mr Sweeting: Yes, it is owners, although quite often in the street commercial circumstances you have owners of buildings. But you're right, it's owners, not tenants. The tenants benefit to the extent to which the lease arrangement in the dealings with the landlord results in tax reductions being passed through.

Mr Phillips: I wasn't being rude on this. I think the proposal has very little to do with small business and has a lot to do with owners of smaller properties. If that's what we want to do, okay, but typically business occupancy tax, the lower rates — I'm generalizing; I know it was based on the type of business you were in — tended to be smaller businesses. The government has decided to get rid of that tax and make it all now a realty tax, and the only break you can get is if you are the owner of a piece of property that has a lower value.

As I say, the natural outcome to me is, first the lawyers will have a field day because they will be chopping properties up. Second, many of the small business people I know are in huge accommodations. They're in industrial malls — this is in my area — where they've rented themselves 6,000 or 7,000 feet in an industrial mall, but they're paying a lower BOT right now.

I guess I'm making a statement more than asking a question. We're creating quite a neat tax opportunity for owners of property, but I'm not sure it correlates to helping small business.

The federal payments in lieu, most of which go to the municipalities right now — the city of Ottawa takes that cut — have we got any assurances that the province isn't simply going to say, "We're going to intercept that, and the education portion we will keep for ourselves," in addition to the $2.5 billion on residential property tax? Have we got any guarantee that this isn't simply a grab by the province, to pick up some new revenue?

Mr Sweeting: The government has not made a decision yet on that question. I can't indicate one way or the other in terms of what they're looking to do. As I said earlier, the government has indicated it intends to raise $2.5 billion and there is an authority to prescribe how

payments in lieu will be shared, but no more decisions have been made.

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Mr Phillips: This is an amazing piece of work we're doing here, without the publicly, duly elected people having impact studies. You indicated earlier that you don't have one, but can you tell us whether the government has conducted some sort of impact study on what this is going to mean to property taxes? If it has, can we get it? If it hasn't, is it responsible public policy for us to be proceeding with this?

Mr Sweeting: I believe that's a question to ask the minister. It's a question that has been asked previously that the minister has dealt with. I don't feel it's appropriate for me.

Mr Pouliot: You'd make a good minister yourself. You don't answer the question.

Mr Mario Sergio (Yorkview): Could you explain a little bit about the deferral on seniors and the physically handicapped and low-income people? We may see an increase on a yearly basis. I was at a meeting where an example was given, let's say $400 a year. In North York, for example, the education portion is up to 56.7%, almost 57%. Is the province willing to defer that amount for seven or eight years and then to defer every annual increase for seven or eight years?

Mr Wong: The tax deferral or tax relief program for low-income seniors and low-income disabled is for the education portion as well. It is a writeoff if they want to do a cancellation, or a deferral, as it may be.

Mr Sergio: It's a writeoff if they want a cancellation.

Mr Wong: If it's a cancellation, it will be a writeoff, of which the government will absorb the education portion.

Mr Sergio: I see. So if I am a senior and I'm in the low-income bracket and I say, "I don't want to pay this $400 increase," I can come to the province and say, "Write it off"?

Mr Wong: No, it is the municipal program that is doing this deferral or tax relief. It is only for the assessment-related changes. It's not for the whole property tax issue. So if your tax-assessment-related increase is, let's say, $1,000, that's the only portion you can deal with, not the total property tax that the senior pays.

Mr Pouliot: Elizabeth, we hope appeals of assessments will be in by June 29, so people get their assessment notice in April and they have, grosso modo, two months to launch an appeal. How long does the appeal process take?

Ms Patterson: Actually, they'll start to get their assessment notices at the beginning of February through the beginning of March, so they'll have a lot longer than the 21 days they have now to launch an appeal.

How long it will take to get their appeals through is an issue of scheduling for the Assessment Review Board, but the board has received additional staff and funding to deal with the anticipated appeals from the assessment form. They are, as they always do, giving priority to residential properties, which is the majority of properties, but an area in which the financial impacts can be fairly significant and where they can manage to address a lot of appeals in a timely way. There will be some time required in order to register those appeals and file them, but they're hoping to begin with the hearings in the fall of 1998 and to be through the residential appeals, at least, by the summer of 1999 and then to move on to some of the commercial appeals that are outstanding.

As well, the government has agreed to fund — because we are also part of the service transfer — the cost to municipalities of defending those appeals, both in terms of staff time and in terms of legal resources that may be required to defend them.

Mr Pouliot: On the same issue, would you have a ballpark figure as to what the waiting list for appeals is at present, how many cases?

Ms Patterson: No, I don't. I know that because of the pending creation of a property and planning tribunal, which will incorporate both the old ARB and the old Ontario Municipal Board, there are business plans for both tribunals to resolve everything that is currently outstanding by the fall of 1999, so the stuff that is under the old system should be through by that time and they'll be able to start then on dealing with the new ones. There are some I guess Mr Grimmett is familiar with, where there has been a long, outstanding legal challenge, for example, where the scheduling of a number of matters has been held up pending that resolution, but they generally try to deal with them in as timely a way as they can.

Mr Pouliot: I was concerned about the numbers, or a number, because it has been decided — and you've used the word "anticipation" — that it would be good to go in an orderly fashion as we evaluate and develop this theme. They say, "We have so many appeals. We anticipate, therefore, that there will be so many more," and then you factor in the complexities etc. So surely we must know. Is it 200,000?

Ms Patterson: Historically, appeals on reassessment, not only in this province but in other provinces, have been in the range of 10%. When we originally started to look at this, we couldn't make assumptions about apportionment. I guess we can't yet, until the sections are proclaimed. So we're looking at about six million units at a 10% appeals rate. In fact, it looks like it's going to be four million properties, but the 10% appeal rate is probably appropriate enough. That doesn't take into account any matters that can be resolved by the long window for informal resolution, which in some provinces has been very successful in bringing down the number of formal appeals. You're probably looking at something in the range of 400,000 to 600,000.

Mr Pouliot: Let's say 500,000 appeals. How long will it take to process them?

Ms Patterson: To process, probably four to six months. To actually hear and resolve, probably 18 months for the routine appeals. Large commercial appeals traditionally take longer, because there's a lot of discovery and a lot of legal work that gets involved in it, but the majority of ratepayers' appeals, individual family appeals, should be done in a year to 18 months.

Mr Pouliot: So people who exercise the same honourable profession as my friend and colleague Mr Grimmett stand to gain in this exercise.

Half a million appeals. What happens in the meantime if you're a small independent businessperson in the city of Toronto and you are being reassessed and it is anticipated that your reassessment will mean one thing, and one thing only? We keep in mind that you are not getting a break re education levy. You could be at the mercy — no imputing of motives. If you're reassessed in the city of Toronto and you're a standalone small business, the value of your property becomes vis-à-vis another in the same vicinity.

This is the heart of the assessment. That's the philosophy of assessment. By all accounts, you're about to be reassessed upwards. You will still pay your full complement of the school levy, so assuming that you're one of the 500,0000 — and this shall happen — who will appeal, and it takes two years, grab a number, because of the 500,000 list, what happens? It's business as usual until the appeal is heard? Is there any retro provision? What happens to your lot if you're reassessed upwards, you decide to appeal and it takes 18 months to hear your case?

Ms Patterson: The same thing that happens now when it takes 18 months to hear your case, which is that the law requires you to pay tax on the basis of the assessment as returned, pending any resolution on appeal.

Under the new system, as opposed to the old one, that won't be as long, because there won't be appeals going on to the OMB for another extended period. There is an expectation that where there are significant impacts on taxpayers, there will be a phase-in implemented by municipalities. So the full impact of any reassessment change won't be fully implemented for a period of up to eight years, and therefore the full impact won't be felt until the appeal has been resolved.

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Mr Pouliot: In a previous answer by our ADM, Tom answered, and I sensed in the tone — please correct me — that there was a belief that this focus was to help, or certainly not to hurt, small business people.

I have here a current daily from Toronto Press Today: "Tax Base Has Voters Worried." This is the largest daily in Canada, the Toronto Star. This is not your local tab down the street. They make good usage of page 3 to talk to us about "Changes Spark Fears of Spiralling Rate Increases." Nothing less than the Toronto Star; you can pretty well take this to the bank. Those people have the resources, have the professionals to do an accurate job, and they don't profess a bias in any way. This is not a political seat; this is a serious newspaper.

They address exactly that. How timely. They believe that small business people are about to get it in the neck. Monsieur Assistant Deputy Minister, you believe this will benefit small business people, yet you would be hard-pressed to say that when they are reassessed, your good money would be on that they likely, like most other units, be it commercial, industrial or residential, in the city of Toronto will be reassessed upwards. You've heard the presenters, the delegations that we've had. Almost unanimously they voice the same fear, that if you live in the city of Toronto, once amalgamation has its way, if amalgamation and the dumping of new services doesn't get you, assessment and reassessment will.

How do you reconcile both your position that on the one hand you believe that the small business people in the city of Toronto, when all is said and done, will get a benefit under 149 and the fair taxation, yet all accounts on the other side point to an increase in assessment if you reside or do business in the city of Toronto?

Mr Sweeting: I can comment on the view with respect to assessment-related and tax-related, but not on the potential transfer of services, which you also alluded to. It's anticipated that assessment reform will have an impact so that some properties will increase in value and some properties will decrease in value. It will be no different for small business than it is for any other type of property owner. You can expect that there will be some properties that will face higher taxes as a result of assessment reform; some will be lower.

Regardless of whether they go up or down because of assessment reform, which also has a relationship to what municipalities decide to do in terms of their variable-tax-ratio-setting powers and how they tax business property relative to residential, it also includes the yet-to-be-determined education tax rate impact. The application of tiered rates, if they are adopted by the new city of Toronto, will help properties that are of lower value. Those lower-valued properties quite often are occupied by small businesses.

Mr Barrett: Under Bill 149 we know that small commercial theatres will be exempt from property tax and the large theatres and not-for-profit public theatres are also going to be getting a bit of a better shake. I think this is very important, given the contribution to our tourism industry from theatres and the jobs and income that these kinds of theatres generate.

I understand since the introduction of this bill there have been concerns from operators of public theatres, arguing in a number of ways that they're different from the private theatres. I wanted to get some of the details on this, or a bit of an explanation. The amendments that we're proposing in this bill, to what extent do they acknowledge the difference between public theatres used for not-for-profit productions and theatres that are used primarily to stage large, live commercial productions. What are some of these differences? Also, generally, how will the new tax system be fairer? How will it benefit all these theatres, no matter what category they are in?

Mr Sweeting: As you've indicated, the bill intends to create a more competitive and level treatment of the live theatre sector in Metropolitan Toronto. The minister, in introducing this, emphasized the substantial role that Metro Toronto's live theatre sector plays. The bill itself was giving the minister the opportunity to create a subclass of the commercial class for eligible theatres to ensure that an appropriate level of tax was paid. It also requires that public theatres start making payments in lieu where they are in competition with the private sector.

What has happened with the amendments is aspects of this policy which were previously to be contemplated by regulation are now being accomplished by proposed amendments to the act, so there is a definition of what an "eligible small theatre" is, so it's clear in the act who benefits from exemptions from property taxes. As well, the regulation-making powers with respect to the definition of for-profit productions and the payments in lieu in those kinds of circumstances are also moved to the legislation.

There has also been a recognition that the public theatres often have a different character than the private theatres because they typically can have a substantial portion of their run occupied by not-for-profit productions, so there is an opportunity through the proposed policy that the public theatres would only be taxable if the for-profit occupation is more than half the year, and where it is more than half the year, the payment in lieu will only be based on that portion in which there was a for-profit activity in there. If they make various payments related to cross-subsidization of not-for-profit activities, if the for-profit money is used to benefit the not-for-profit portion of the property, then that can be used by the municipalities against the owing payments in lieu.

Mr Barrett: There's one example I'm thinking of, the small not-for-profit summer theatres. I'm thinking of one in a town in my riding, Lighthouse Theatre in Port Dover, which runs for a limited period of time. The very small summer-run type of theatres, what kind of impact is there on these kinds of operations?

Mr Wong: If it is less than 1,000 seats, it would be totally exempt from all property taxation. Otherwise, if it is larger, 1,000 seats or more, it would be subject to the current provision that it's taxable unless it has an exemption through a private bill.

Mr Grimmett: I wanted to prolong the agony on the business occupancy tax and the discussion around that, and how it might affect the relationship between the commercial landlord and the commercial tenant after it is lifted. I thought it was ironic that while Mr Phillips was making his comments, I was thinking that my bias on this issue had been totally the opposite of his, because from my background in a small town, working with commercial tenants and commercial landlords, it's my perception that there still are a lot of tenants in a commercial situation who do not have a property tax component in their rent.

I'm thinking of the situation where a small business is paying rent on a simple basis to a landlord and possibly paying for their own hydro and maybe their own heat, with no tax component in their arrangement with the landlord. After the legislation, if it is passed, begins to impact, the small business operator would no longer have to receive and pay a business occupancy tax bill from the municipality. Presumably the revenue that is lost to the municipality as a result of that will be returned to the property owner in a higher tax bill. Under those circumstances, it is the small business person who would benefit significantly and the small business landlord could be seen as not benefiting. That is a possibility.

Mr Wong: Yes.

The Chair: Thank you very much for your assistance. This committee stands adjourned until 1 o'clock.

The committee recessed from 1201 to 1303.

CN RAIL

The Chair: Our first presentation today is from CN Rail. You have 30 minutes to use as you wish. If you'd like to leave time for questions, that is sometimes helpful to the committee members, and I'll divide it among the three parties equally, whatever you wish. Would you please identify yourselves for the record.

Mr Brad Searchfield: Thank you, Mr Chairman, for the opportunity to appear before you today. My name is Brad Searchfield. I am the director of real estate management for central Canada and the US. With me today is Ron Ditchburn, the manager of property taxation, and Sandra Wood, director of governmental affairs.

Canadian National owns and operates 3,152 route miles of track in the province of Ontario. In 1996-97, this network moved some 50 million tons of freight, the equivalent of approximately three million transport truck movements. We employ over 6,000 people, paying them more than $300 million in wages and salaries. Our operating expenses exceed $600 million and we purchase more than $300 million in goods and services in the province.

In 1997, CN created approximately 200 new jobs in Ontario. In addition, we have purchased 140 new locomotives from General Motors and 300 new railcars to be built by National Steel Car of Hamilton — total value in excess of $270 million. CN also paid $55 million in taxes to various provincial and municipal authorities, $30 million of that amount in property taxes.

It is, of course, on the property tax issue that we appear before you today — more specifically, right-of-way property taxes. With your indulgence I would like to provide you with some historical background on right-of-way taxes.

Prior to 1979, railway rights of way in Ontario were, for tax purposes, assessed on the basis of abutting land values. As real estate values began to escalate, particularly in the greater Toronto area, it was recognized by the province that this basis of valuation would so unfairly burden the railways as to dramatically affect their competitiveness.

For the 1979 taxation year, therefore, provincial assessment authorities implemented a railway property tax class factor. This protection was meant to stabilize right-of-way taxes until the problem could be permanently addressed through legislative change. This legislation never was enacted, in part because various municipalities, Mississauga in particular, challenged the province's authority to establish a separate railway property tax class. While the Supreme Court of Canada later upheld that the province did indeed have this authority, this protection was nevertheless removed in 1989. Since then our right-of-way taxes have doubled.

As we understand it, the objective of Bill 149 is to provide some stability for right-of-way taxes. If our understanding is correct, let me say that CN supports the policy thrust of Bill 149 and acknowledges that this is a major step in the right direction. However — and this, of course, is the "but" — the government has also eliminated the business tax, from which we were exempt, resulting in its reallocation across the industrial-commercial tax base. Coupled with the implementation of actual value assessment on our non-rail corridor properties, this reallocation will mean that CN's total tax burden on non-corridor properties will almost double when compared to 1997. The potential benefits associated with Bill 149 are negated by the doubling of our tax burden on our non-corridor properties, properties which are essential for our rail operations.

The tax stability envisioned in Bill 149 will actually result in an estimated $15-million property tax increase for CN. Any increase in our tax burden impairs our ability, and that of our Ontario customers, to compete both domestically and internationally and imposes severe constraints on our level of investment and expenditure in the province. In theory, as a business's costs increase, these costs are passed on in the form of higher charges to that business's customers. With all too many industries, however, and in virtually every instance where our major customers are concerned, our ability to increase rates is extremely limited. In evidence, I offer the fact that between 1986 and the present day, Canadian National's average price for moving Canadian freight declined in constant dollars by more than 30%.

In the face of increases in railway freight rates, those of our customers who are also served by the trucking industry — and most of our Ontario customers are — would, in response, simply move a greater percentage of their product to the trucking mode. Those that can best be served by rail would have to consider locating, or indeed relocating, to a lower-cost area in an effort to remain competitive.

CN is not seeking special treatment. We accept actual value assessment of our non-corridor properties, and indeed we are prepared to accept the considerable impact associated with the reallocation of the business tax. We are seeking the mitigation of this substantial increase. CN cannot support a property tax increase. We believe this could best be achieved through the elimination of the right-of-way taxes or, alternatively, the reinstatement of the benefit associated with the 1989 railway factor.

This approach allows the government to maintain the fairness of its tax regime and provides a level playing field for the transportation industry. The railways receive no services for taxes paid on rights of ways. We build, maintain and police our own roadway. Right-of-way taxes have more than doubled in Ontario since 1989 and are currently higher than in any other province. They distort the marketplace, impair our ability and that of Ontario's industries to compete, and jeopardize the growth potential of Ontario's burgeoning shortline industry.

Mr. Chairman, members of the committee, thank you for your time and attention today. In addition to that presentation, we have a package of information. I'd just like to briefly explain what we have in this package.

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The first component is this report prepared by Graham Parsons, Canadian National and Provincial Rail Taxes in Ontario's Economy. Graham Parsons is a professional economist with a doctorate from the University of London. He's worked in international aid, trade and development as a consultant. He has been a director general with the government of Canada and deputy minister and chief economist with the province of Saskatchewan.

This report was prepared to understand the tax implications on the railway industry. I just direct your attention to page ii, essentially which is the conclusions of the report under "What Can Be Done?" The report suggests the reduction of the current tax burden on railway rights of ways in Ontario; exempt railway rights of way from taxes; assess other railway properties in a non-discriminatory manner; administer taxes on all railway properties at the provincial level; create a level playing field for all modes of transportation in Ontario.

If you turn to page 40, which is essentially where the economic argument is developed, there's a brief summary of the economic losses from provincial rail taxation of CN. If you look, it shows that from a low to a high level, showing anywhere from about $67 million to $202 million of GDP, $13 million to $41 million in investment, and 1,500 to 4,500 in employee numbers.

The other important point besides the direct economic losses is the economic distortion into the road system. If you look on page 41, the italicized typing, I'll just read these:

"Ontario industry and the rail system has already made major investments in the rail export delivery infrastructure. Losses from this sector must be set against the gain in truck exports.

"Government would bear increased fiscal demands for road maintenance and construction."

If you flip over to the next page:

"Any significant transfer of rail traffic to the road system will place substantial demands for additional road and truck investment. The magnitude of these potential costs is made apparent from the following statistics that provide volume comparisons between rail and trucking for selected commodities."

Essentially we didn't choose to highlight all of the aspects of this report, but I think it's quite a useful tool. Some of it has been summarized in the other part of your package, which is really some of the highlights of this report as well as some of the other information we felt was pertinent.

The slides aren't numbered, but I'll number them. Slides 1, 2 and 3 deal with the direct economic impacts of CN in Ontario. We speak about employment, wages, operating expenses, investment in new structures, as well as describe our customers. Slides 4 and 5 speak to the specific tax implications as we understand them. If you look at this slide with the bar chart, the impacts as we estimate them on our non-rights-of-way taxes will go from

1997 at $13.8 million to a total of $26.7 million. This is for the non-rights-of-way only.

The next slide which is the one with the pies, shows the 1989 taxes versus 1997 versus the projected 1998 under the proposed legislation. The 1989 numbers, adjusted for 1997 dollars, show $9.4 million for rights of way. In 1997 that would go to $16.2 million. In 1998, if the rights-of-way taxes were to stay the same, be frozen at that level, the net consequence would still be an additional tax from $30 million to $42.9 million.

The last four slides, slides 6 through 10, describe the competitive environment that CN finds itself in, this province compared to the other provinces, and looks at taxes as a percentage against the other provinces' fuel tax and concludes with a comparison of all taxes on various industries.

That's the conclusion of our formal presentation. We'll be pleased to answer any questions.

The Chair: Thank you. We'll go to the Liberal caucus, Mr Phillips. You have approximately seven minutes.

Mr Phillips: I think I understand your issue, which is what initially probably looked like a positive move for the railroads, which is to move to a per acreage assessment. An unforeseen, by you at least, outcome of taking the business occupancy tax off and then adding it back on realty taxes has quite a significant impact on you.

I just want to talk a little bit about the right-of-way thing, though, because the chart that you've got in here on the right-of-way comparisons that shows the train moving from Oshawa to Chicago, and the bumps and taxation as it moves along the rail line, makes my interesting point for me. You're moving, probably, through two or three of the nine geographic regions the province has proposed, and what we'll see in the future will be, as it moves through from Oshawa almost to Hamilton, that line will be much flatter. This is total dollars, I guess, and it depends on the acreage of right of way. Then when it hits Hamilton and goes on for a way it will be flatter, and when it hits somewhere else, probably London to Sarnia, it will be flatter again.

So the expectation for you is if there's an acre of land in — I always say an acre of land in Pefferlaw and an acre of land in downtown Toronto. Your expectations would be that you would pay the same property tax per acre if it's in downtown Toronto or if it's in Pefferlaw. That's your understanding of the bill?

Mr Searchfield: I don't know the geographic regions exactly.

Mr Ron Ditchburn: Yes, within the geographic areas. The first geographic area is actually the GTA, so anything within the GTA, going from Durham into York —

Mr Phillips: Pefferlaw is in the GTA.

Mr Ditchburn: Right. So after eight years they would eventually be the same amount per acre.

Mr Phillips: Right. It's an interesting one. I'm not sure I agree with the chart totally in detail, but in direction I think it's clearly right, in that we've been told by virtually every municipality we asked — and the committee went around the province on one of the bills — that they are going to add business occupancy tax back on to commercial-industrial realty taxes. I guess you've assumed about a 40% increase in commercial-industrial realty taxes and I think that's probably right. Why have you assumed that the value of your property would increase taxes by $5.3 million?

Mr Ditchburn: Basically what's happened here is we're concentrating on areas where there haven't been reassessments in many years, such as Metro for one. We're also taking a look at Oshawa; areas like Vaughan where there haven't been reassessments anywhere from 1954 to 1967. Generally what we've found, based on past reassessments, is that the values on land have increased more dramatically than they have on buildings. Because we're land-oriented or land rich, as opposed to having a lot of buildings, there's a shift of taxes to parcels that are not protected with buildings. It moves from buildings to land. So what we expect is that in Toronto in a lot of cases — this goes right back to the MVA study back in 1992 or 1993, based on 1988 values — is that we are looking at a potential for increases of up to 500%. We don't expect that to be any different, to be in Vaughan or to be in Oshawa.

Mr Phillips: That's fair. So you've actually looked at each of your properties relative to the assessment.

Mr Ditchburn: We've looked at our major holdings, yes.

Mr Phillips: In terms of what the government's intention is here — it's difficult for us to find out, but maybe you know better — was the expectation that you were going to be left kind of revenue-neutral, that this bill was going to leave the major rail operators paying no more taxes on your right of way and no more taxes on your non-right-of-way properties?

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Ms Sandra Wood: I think that's probably a fair statement from our perspective. That's certainly what we were looking for and that's what we hoped Bill 149 would do, leave us paying the $30 million we're currently paying.

Mr Phillips: Certainly that had been kind of what I thought the government was saying publicly. The reason they are seizing control of the right-of-way assessment is, I gather, to end any rapid escalation of taxes on the rights of way. But I think you got one of the unintentional consequences of the bill, which is —

Ms Wood: I think you're right. It came as a surprise to us but I don't think it was an intended outcome.

Mr Phillips: Your proposed solution here is a creative one, I think, of saying if that is the government's intention, they have the tools at their disposal, because as we understand it, the government, cabinet, Mr Eves and Mr Harris, by regulation, will set the tax rate on rights of way. You're saying they have the potential to redress what looks like a dramatic increase in your non-right-of-way property tax by adjusting it on the right-of-way property taxes.

Ms Wood: Yes. Because it's going to happen under regulation, we think that's the easiest way for them to deal

with it, particularly since, as you know, we don't think of right-of-way taxes as being fair. However, we want to be good corporate citizens and we're quite prepared to pay the taxes on our non-corridor properties because we get services for those. So keep that. From our perspective that's fair.

Mr Pouliot: Thank you for your time. One more time, an excellent presentation. I listened intently to your presentation and came away with the impression that you did evaluate from a premise of speculation and then this led to some assumptions. For instance, you will no longer be "assessed," but a levy per acre, a fee per acre, répartie, spread over nine regions, with a variance in the assessment, if you wish, in this context in the structure. Do you have any idea what you will be assessed? You say that in view of that, you support the thrust which was the intent and spirit of Bill 149, but only when it comes to rights of way. Am I right?

Mr Searchfield: We believe the thrust is to essentially freeze the right-of-way taxes at the current level.

Mr Pouliot: With respect, how do you arrive at saving money in your presentation on the rights of way? You feel you will be getting a fairer shake because the province will set the rate in lieu of others?

Mr Searchfield: Ultimately we're acknowledging that there's the opportunity for a freeze on rights of way. What we're saying is that unfortunately there are these other influences on our property tax load which are the result of AVA and the reallocation of the business tax. Therefore there may have to be some further movement on the taxation of rights of ways in order to ultimately end up with fair taxation. So the savings would be gained on the right-of-way component in order to balance the total tax load, because that's where the tools are.

Mr Pouliot: Thank you very much. Fair taxation — and a synonym in this instance is "appropriate taxation" — the dollars may differ, but we'll wait in terms of assessment.

You also indicate that what you might gain on the rights of way you will lose on account of your multiholdings outside the provisions of the rights of way. In other words, the buildings would be reassessed and you assume that they would be reassessed higher?

Mr Searchfield: Correct.

Mr Pouliot: Do you believe in current value assessment?

Mr Searchfield: Yes, we support the principle of paying fair taxation. Fundamentally, we think rail corridors are a different entity and should be treated separately, and the remainder of our property should be treated like everyone else's property. Non-right-of-way should be treated like everyone else's. There's a consequence to CN that probably is different than some other industries.

Mr Pouliot: Therefore, with respect, would you agree candidly that you've been underassessed?

Mr Searchfield: No, I don't think so, not that we've been underassessed. We have been assessed in the same manner as all of the other owners and industries in those jurisdictions. It's just that those jurisdictions are now going through a reassessment. There will be impacts on us. We haven't quantified the impacts on the people; we assume that the impacts, because of the property tax issue, are more substantive.

Mr Pouliot: You don't happen to have a copy of your latest quarterly or annual report with you, do you? I would feel privileged and favoured if you were to —

Ms Wood: I don't have a copy of it with me.

Mr Pouliot: Maybe M. Tellier has some spare ones. You could get one over.

Ms Wood: No problem.

Mr Pouliot: Will this in any way expedite or have you tipped your hand in selling land?

Mr Searchfield: In selling land?

Mr Pouliot: Yes.

Mr Searchfield: We're going to continue to divest our surplus properties. We have been doing that and will continue to do that. We also are in the process of shortlining other properties that are non-core to CN, and we would hope that fair taxation of those corridors would assist with the sales, make them viable.

Mr Pouliot: You feel in your presentation that the obvious burden of high taxes is a deterrent to competitiveness of the marketplace?

Mr Searchfield: That's been demonstrated in Dr Graham Parson's report.

Mr Pouliot: I see. For instance, CN Rail has to compete with the just-in-time delivery; hence the increase of truck volume etc, and yet you mention the burden on the state to fix potholes etc. I once had your friendly competitor here and it was back to back. One was talking about the unfair competitiveness of CP Rail and the way the luck of the draw had it, CP trucks was right after them. So it called for a very, very interesting dilemma and presentations.

You bring forth as support for your argument a situation that you know very well, that of our neighbour the United States of America. With the annual report, I would also like to have your latest coup or venture, investment in the US. I understand you know Delaware very well and all the competing lines. There's so little time and so much could be said. You don't mention a comparison of economy of scale, land mass, climatic condition, which certainly lends credibility as it makes our job a lot easier.

The Chair: We'll go to the government caucus now.

Mr Grimmett: I just wanted to clarify some of the points that you've made. First of all, I know that your preference would be to have no property taxation on the right-of-way property, but are you saying that if you have to have property taxation on the right-of-way property, Bill 149 does that properly?

Mr Searchfield: It's the application of the regulatory part of that which will determine whether — the tools are there, as I understand them. It's the application of the tools.

Mr Grimmett: The bill sets out the idea that we'd set up some geographic areas, and nine have been suggested. Would you concur with the suggestion that there should be more geographic areas?

Mr Searchfield: Yes, I suppose —

Mr Grimmett: Or would it be fair to say that there are too many currently because you have to go from municipality to municipality and you don't know what the rates are going to be; they're up and down and all over the place?

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Mr Searchfield: The big part of the problem is just that: Each municipality is dealing with this individually and there is no consistency, so we don't know exactly from day to day ultimately what our tax bill is going to look like. Consistency and stability are very important.

Ms Wood: I think for us it's half the number of geographic areas right now; the nine are probably fine. Our point in this presentation is more the rate per acre, what the rate is going to be, where it is set, at what level.

Mr Grimmett: Right. But you have received the assurance that the rates will be frozen.

Ms Wood: At 1997 levels, as we understand it, yes.

Mr Grimmett: Then let's deal with the off-right-of-way property. The chart here, I don't have a number for it, but it shows the predicted AVA increase in the business tax. Is it fair to say this is a worst-case scenario that you are suggesting here?

Mr Searchfield: I don't think it's worst-case. I think our tax group did some fairly detailed calculations and it doesn't represent worst-case. It represents what we feel is a fair analysis. Is that accurate, Ron?

Mr Ditchburn: Yes, it is.

Mr Grimmett: Other businesses that would operate in the vicinities that you operate in, would they have a different impact?

Mr Ditchburn: What do you mean by other businesses? Are you talking about just general industrial-type businesses?

Mr Grimmett: Commercial-industrial.

Mr Ditchburn: I guess what would happen if I was dealing with the distillers, I would think that my taxes would likely be dropping substantially on the business tax side of it, because they're paying 75% at the present time. If their rounding out procedure is 40%, then they're going to drop. The banks would be dropping. The mom-and-pop stores would be going up. Parking lots would be increasing. It will have to eventually arrive at whatever that average is.

Mr Grimmett: What we've said all along is, when you try to implement one system of assessment throughout the province, there will be some properties that will go up and some that will go down.

Mr Ditchburn: That certainly has been said, yes.

Mr Grimmett: Are you asking to be treated differently from other businesses in this regard?

Mr Searchfield: No, I don't think we're —

Mr Ditchburn: Not in total.

Mr Searchfield: No, we're not asking to be treated differently. We've said that we understand and appreciate the impacts of AVA. We would like it to be acknowledged that the business tax is specific to the railways, that issue of allocating the business tax. So the other industries that Ron was talking about aren't going to be affected as dramatically as we will on that reallocation of business tax. So no, we're not asking for special treatment on the non-corridor. We're just saying when the decisions are going to be made about setting the rates on the rights of way, that there be some acknowledgement of the tremendous increase we're experiencing on the other properties, in order to help establish those rates.

The Chair: Thank you very much for coming today. We appreciate it very much.

RAILWAY ASSOCIATION OF CANADA

The Chair: Will the Railway Association of Canada please come forward, Roger Cameron. Would you please be so kind as to identify yourselves for the record.

Mr Bob Ballantyne: Thank you very much, Mr Chairman. My name is Bob Ballantyne. I am the president of the Railway Association of Canada. I'll leave a business card for you at the end of the meeting. On my left is Roger Cameron, who's the general manager of public affairs at the RAC. On my right is Bill Krestinski, who is with one of the new shortline railways in Ontario, the Huron Central Railway that runs roughly from Sudbury to Sault Ste Marie.

We certainly appreciate the opportunity to appear before the committee today to comment on Bill 149, the Fair Municipal Finance Act, 1997. We have had input not only from Canadian National and Canadian Pacific, the two largest railways that are members of our association, but also from a number of the smaller railways, including Ottawa Valley RaiLink, Essex Terminal Railway and also Algoma Central. All of course are Ontario-based railways.

The Railway Association of Canada has in its membership all 41 railways that are operating in Canada today. That number of railways is up from 34 at year-end 1996, and we have seen our membership increasing at a rate of almost one railway a month this past year, and that has to do with the changes to the Canada Transportation Act that facilitates the creation of shortline railways. Ontario certainly is a province where there has been and will continue to be growth in the shortline railway industry.

The railways have made major changes in the way they work: international tunnel improvements at Windsor and Sarnia, the use of radio-controlled locomotives to increase flexibility of switching yard operations and advanced information systems to track traffic interchange between trains and carriers.

Canada's railways contribute to the country's success as a trading nation. Last year they moved 3.7 million carloads. Most of this volume came from automotive shipments, from industrial and forest products, grain, fertilizers and coal traffic. In addition to that carload traffic there were 1.2 million containers and trailers moved by rail as intermodal traffic. The nature of that traffic is such that it also moves by ocean-going ships between Canada, Europe and Asia and by truck for local pickup and delivery service.

Two thirds of Canadian rail traffic is international, moving either transborder or to port positions for overseas. These exports represent about a quarter of Canada's gross domestic product. Some 40% of the country's exports depend on rail transportation. Ontario is a pivotal place for that success, both for Canada and the railway industry.

In addition to Canadian National, from whom you heard this afternoon, and Canadian Pacific, who will appear tomorrow, there are 16 other passenger and freight railways that operate in Ontario. They include the Essex Terminal, Algoma Central, Ottawa Valley RaiLink, Goderich Exeter, Huron Central, Ontario L'Orignal, the Port Colborne Harbour, Waterloo-St Jacobs, CSX and Norfolk Southern, and the provincially owned Ontario Northland. Passenger and commuter railways include VIA, Amtrak and GO Transit. In addition, Algoma Central and Ontario Northland also have significant passenger operations. These services use existing freight rail lines and carry more than 30 million riders each year and help reduce road congestion and pollution.

The expression that there is nothing as certain as death and taxes is true, as we all know, but we are concerned that the order may be reversed — that there will be taxes and they may be the source of our death.

Canada's railways paid fuel, property, sales and excise taxes last year at $430.4 million. Although that was a decline of 8.5% after the four consecutive years of increases, the total of these three taxes were substantially higher than the total net income of the industry.

That's not the total tax bill. We were also subject, as are all other businesses, to both payroll and income taxes. In fact, at 2.3 cents per revenue-tonne kilometre, the railways had to produce 18.7-billion revenue-tonne kilometres just to pay the $430.4-million bill of fuel, property, sales and excise taxes. I'd ask you to look at that 2.3 cents per revenue-tonne kilometre and think of it in these terms: We have to move one tonne of freight 10 kilometres in order to generate enough cash to buy a pencil. That means that we've got to generate an awful lot of revenue-tonne kilometres at that rate in order to pay our expenses and to give our shareholders some return on investment.

In Ontario, locomotive fuel taxes held even last year at $27.3 million. Other sales and excise taxes appear to have reduced somewhat, from $37.5 million to $23 million. If you were to ask me why that happened, I can't tell you at this point. When I looked at these numbers, it did surprise me somewhat and I'll be reviewing that to find out the reason. Property taxes increased last year from $33.8 million to $35.4 million on all the railways that operate in Ontario.

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As the Canadian National people mentioned just previously, the railways are not looking for special treatment in taxation, just equitable treatment. The tax policies of federal, provincial and municipal governments continue to discriminate against the railways and put us at a competitive disadvantage compared to North American trucking and our US railroad competitors.

The capital cost allowances for Canadian railways have discouraged much-needed investment in new locomotives, freight cars and intermodal containers. Despite the tax disincentives, the railways have increased their capital spending recently and have indicated that equipment purchases would have been greater if the capital cost allowance policies had been more encouraging.

This is an issue which affects our suppliers, and it affects our suppliers' suppliers, and the employees of both in such Ontario communities as London, Hamilton, Oakville, Burlington, Mississauga, and even such small villages as Apple Hill in eastern Ontario where there is a small railway supply company.

The economic health of these suppliers is closely tied to the health and viability of the railways. They provide a diversity of goods and services to the railway industry ranging from petroleum products to rail cars to communication services. And it affects freight customers in the automotive, chemical, mining, pulp and paper, lumber and newsprint products sectors, as well as importers and exporters of industrial products in other communities throughout this province.

Ontario's railways help improve the international competitiveness of the province. They help maintain employment in businesses and services directly and indirectly related to the rail industry itself. They help Ontario municipalities attract new investments by businesses that depend on cost-competitive transportation services.

For Ontario to remain competitive, it needs a low-cost, viable railway system, both for the transportation of commodities to and from North American destinations and overseas, and for the provision of passenger and commuter rail services.

Increasingly, the railways' ability to fulfil their commitment to customer service is hampered by provincial and federal government taxation and infrastructure support policies that discourage capital investment in railways. Unfortunately, Ontario government policies have contributed to these handicaps.

For example, the railway tax factor — as was mentioned — which was introduced in 1979 as a means of stabilizing our tax load was removed in 1989. This left the railways open to inequitable assessments. As you heard from Canadian National, we have seen increasing tax loads on largely unserviced land.

Bill 149 holds out the promise of some stability in railway taxation. It is apparently a recognition that the removal of the railway tax factor in 1989 was a mistake. If so, we too support the policy as an important step in the right direction. However, we hope it's not one step forward and two steps back.

The government eliminated the business tax, from which the railways were exempt, and has reallocated that tax across the industrial and commercial tax base, of which we are part.

The government's implementation of actual value assessment on rail non-corridor properties means that Ontario railways' total tax burden on non-corridor properties could almost double, compared to 1997's burden. Surely

this was not the government's intent. Clearly such cost increases cannot be passed on to our customers.

In 1996 average freight rates in Canada declined to 2.3 cents per revenue-tonne kilometre. Since 1989 these average rates have dropped 9.4% just in current dollars, and at the same time we've seen the consumer price index grow by 18.9%. There are two possible options to counteract this potential and unexpected tax increase on non-right-of-way property, including our track-intensive yards.

Accommodation should be made now to ensure this potential increase does not occur, either by broadening the definition of "right of way" to include yard tracks which are part of the North American process for interchanging freight cars between trains within a railway or between railways, or altering the regional rates to balance off the unexpected increase. To truly remedy the problem, and to help make Ontario an even more competitive trade economy, more commitment is needed from the government at this crucial time.

The move to a regional-based centralization rate is a case in point. Such a system is expected to result in consistent treatment of rights-of-way property and prevent unpredictable and escalating tax increases, and help stabilize the revenue base for municipalities.

The new regional rates may be phased in between 1999 and 2006. If so, they would apply to incumbent carriers. However, as new shortline railways enter the market, our interpretation is that after the bill's passage they would face the new rates automatically. We ask the committee to carefully consider the potential negative effect of this automatic application to new shortline railways.

This new administrative procedure should also provide the railways with a centralized method of tax payment, rather than require them to deal with as many as 400 municipalities.

Implementing regional rates which would correspond to the 1989 railway factor level may also assist in expediting handling of many or most of the tens of thousands of outstanding tax appeals. It's also our view that you can't consider municipal taxation of railways in splendid isolation either. Education tax must be considered at the same time if there is to be successful, and equitable, tax reform.

Last, but not least, we are concerned with the future tax policies in northern Ontario's unorganized territories. These may not be addressed until 1999. Equitable tax treatment of these properties is at great risk too.

The effect of any uniform rate should not be to shift the tax burden within the industry, but to implement an equitable solution.

Speaking of equitable solutions, the passage of the federal Canada Transportation Act in 1996 recognized the need to treat railways as businesses first and foremost. The new legislation provided for a more business, focused approach to network rationalization. The result has been a process of significant network restructuring by CN and CP and the creation of smaller shortline railways which are potentially profitable to a lower-cost operator.

The government of Ontario recognized this change and provided support to grow the Ontario shortline industry. This support included the passage of its own Shortline Railways Act, 1995, and certainly in revisions to the provincial Labour Relations Act.

By extension, this allowed the mainline carriers to concentrate on moving carload and intermodal freight in high volume operations between major centres. The new, small railways serve as economical feeder lines, picking up and delivering local traffic in ways which are responsive to local customer needs. Some of those local customers are economic engines in their own right and have a significant impact on the direct and indirect employment in the local economies where they are located.

A few comments from examples in other jurisdictions may be illustrative.

At the Second Canadian Shortline Railroad Conference in Toronto last year, Dan Sabin, who is vice-president and chief operating officer of Iron Road Railways, which is a major North American shortline operator, had some interesting insights. He noted that from modest beginnings in the last half of 1994, his company expected to handle 100,000 carloads of rail freight by the end of 1996. That rail traffic alone kept 275,000 big, heavy trucks off federal, provincial and state highways. This was in the border area between Quebec and Maine.

In Nova Scotia, on their Windsor and Hantsport Railway, they handle 25,000 carloads of freight annually. That volume would have required 75,000 big trucks to move that comparable amount of freight. The net costs in highway and bridge deterioration and the build-sooner costs resulting from the movement of big trucks on a highway are high indeed. The net savings to the various levels of government collectively from this one small Nova Scotia railway were approximately $31 million.

They've calculated, at Iron Road, that their entire 1,100-mile network will save taxpayers approximately $120 million in net highway costs. Expressed another way, the wear and tear of big and heavy trucks on roads and bridges, and on people with whom they share the road, diverts needed funds that could be used for budgets such as education and health care services.

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To compete within NAFTA, competitive alignment and harmonization of cost burdens is really a must if we're going to establish a truly efficient transportation system. Yet the property taxes on railways are assessed differently than most other industries. This particular problem used to be common to both Canada and the United States, but the United States implemented a federal act in 1976 that prohibited a regional carve-out of railways for higher tax treatment. Some states in the United States now even allow spending on maintenance of rail lines to be credited against their property tax payments.

Canada's railways pay approximately 40% more in fuel, sales and property taxes than similar-sized railways operating in the United States. Canadian railways pay four cents per litre in fuel taxes to the federal government, while in the US, railroads pay under two cents per litre to the US federal government.

I know it was mentioned by the previous speaker, from Canadian National, that the level of Ontario fuel tax applied to locomotive diesel fuel is over six times as great as that paid to the northern US border states by their rail carriers.

A 1993 study by the Transportation Association of Canada showed that US trucks, Canadian trucks and US railroads pay about 8% of their total revenues in taxes. In comparison, Canadian railways pay more than 14% of their total revenues in taxes.

In 1995 we did see the British Columbia government take an initiative to lower its railway property tax. Subsequently Alberta decided to cut its railway fuel taxes in two stages: from nine cents a litre to six cents in January 1998, then to three cents in 1999. Their action was a message to the customers of the port of Vancouver that all stakeholders are contributing to the goal of making the port of Vancouver the most competitive service available through the Pacific gateway. These leadership and innovative approaches should not be lost on the province of Ontario.

We realize that all stakeholders have a bottom line they have to be concerned about. These all need to be kept in mind. Railways can help governments solve problems and society's challenges of pollution, road congestion and the impact of infrastructure costs on scarce dollars. Railways can contribute to society's bottom line. How? Railways consume one quarter the amount of fuel per tonne-mile of big trucks, produce one seventh the amount of carbon monoxide and burn half the hydrocarbons of big trucks per litre of fuel burned.

Currently trucks are the largest single source of air pollution in the goods transport sector, accounting for 70% of emissions, particulates, soil and water contamination. Big trucks also cause up to 3.5 times as much traffic congestion as cars. Although big trucks make up some 9% of highway traffic, they are responsible for over 25% of total road costs. Overall the impact of big truck transportation is two to three times that of rail.

Ontario's railways are not seeking special treatment. They have been and want to continue to be good corporate citizens. The industry does, however, want and expects fair treatment vis-à-vis our competitors in trucking and for there to be modal equity with our NAFTA partners. Canadian society quite rightly exhorts railways and all other industries to be world class, and has a right to expect that we will strive to be the best. By the same token, we need leading edge government. We need regulation and taxation policies that are world class if we are to succeed as a nation.

I'd like to thank you very much for your time and the opportunity to make a presentation. We'd be pleased to try to answer any questions in the time remaining.

The Chair: Thank you very much. We have approximately 11 minutes for questions — we'll start with the official opposition — about three and a half minutes each.

Mr Phillips: I actually think tradition is that —

The Chair: I'm sorry, beg pardon. NDP caucus. Thank you, Mr Phillips, I did that before.

Mr Pouliot: I sense that because of tax rates and tax structure, it could make it more difficult as you streamline — times forever are changing — your operations to attract a shortline operator. Do you feel that as someone conducts its due diligence, which is normal procedure before embarking, you could sense a reluctance?

Mr Ballantyne: Yes, I think that's true, as well as the commercial viability prospects of any shortline property. Also the issues of labour law and taxation clearly would affect a prospective owner looking at the property, absolutely.

Mr Pouliot: With respect, and I know you have that ability to add to the text — humour does become you — labour law is for another session. I'm more sympathetic at present with the need for service, especially in our special part of Ontario. I live up north, sir. We've lived through some run-throughs. I'm not imputing motive. You have to have the ability to make ends meet and the possibility to expand etc. That point is well taken. In its extreme, if we develop the theme one step further, failure to attract a shortline buyer could lead to abandonment.

Mr Ballantyne: That's possible. Certainly under the way the Canada Transportation Act is structured, that would be the likely outcome if a shortline operator could not be found.

Mr Pouliot: If you save me the labour challenge, I will save you the historic, since Confederation. We won't go through huge tracts of land and tax structure etc. Your time is too valuable.

Mr Ballantyne: And so is yours.

Mr Pouliot: Are you more focused on the impact on rights of way and/or outside of rights of way, the properties?

Mr Ballantyne: I think we would really reiterate what the people from Canadian National said. That is, we expect to be treated like all other businesses on our non-right-of-way property. The right-of-way property is, in our view, unique in that we look at it compared to our friends in the trucking industry. We don't collect property taxes on the railroads that you and the municipalities own, at least not that I'm aware of. We may collect taxes in some way, shape or form, but not property taxes. Our rights of way are really unserviced property that is comparable to that use of public right of way by the trucking industry, so we aren't looking for very special treatment there.

Mr Grimmett: I'm interested in pursuing the idea you suggested on page 5, that you could be accommodated by a change in the definition of "right of way." Do you have a more specific reference to right of way in the act for that? Can you get us something more specific?

Mr Ballantyne: I don't have something I could give you today, but we could develop something we would feel would be appropriate for that. The issue there is one of looking at —

Mr Grimmett: Are you talking about the staging yards?

Mr Ballantyne: We're essentially looking at marshalling or switching yards since they would have no other

purpose and not have to be serviced in any way that would affect municipal services.

Mr Grimmett: They're currently assessed on a commercial or industrial basis and you pay tax on those as you would on your other non-right-of-way properties?

Mr Ballantyne: I assume that's the case. I'll ask the tax advisers here if they have a comment.

Mr Ron Ditchburn: That's largely correct at the present time. They're assessed similarly to any other industrial properties.

Mr Grimmett: In the time remaining for me I'll also say that some of the comments you've made about reducing the amount of traffic on highways — the trucking versus rail argument is one I'm interested in, but I have to tell you I've been to industries in my riding.

I was at one recently, their new operation where they make laminated wood. They had the rail line — I think it was CN — that came right into the yard. I said: "Well, isn't that great? You've got the rail line right here. You can take advantage of shipping your product by rail." The president assured me they couldn't make any use of that line. I said, "Why not?" He said, "It's cheaper to ship by rail, but we can't get any guarantee that our products will arrive at the customers on time." I've heard that from other people as well.

The point I'm making is that in terms of competing with the trucking industry, it isn't just a matter of taxation. There are a lot of different issues. Service is one of the main ones.

Mr Ballantyne: That's true, there are a lot of issues, and yes, service is one of them. There are a lot of factors involved, certainly the distance. If this particular shipper's markets are all within a 200- to 300- to 400- to 500-mile radius —

Mr Grimmett: It's Manitoba.

Mr Ballantyne: Then it's rail and service. That clearly should be able to match that of truckers. The railways, both big and small, have been striving mightily to make service improvements. I think there are a lot of service improvements. In terms of the shortline railways, they've added a new dimension to the detailed pickup and delivery of freight. In a number of areas I think we should see substantial improvements to that local switching and servicing of plants.

1400

Mr Phillips: The brief was quite comprehensive. I'm just trying to get myself focused on our bill and how we can help you there. I think Mr Grimmett has his hand on it, that your big concern is the same concern CN just expressed, and that is, as far as you can see, the bill which would seem to be kind of redistributing taxes but not unfairly increasing taxes, in your opinion, unfairly increases taxes on the total rail package.

My suggestion is that if that was the intent of the government, to make sure the rail lines didn't pay more taxes, the solution will probably have to rest a bit with them. If that was the policy intent behind the bill, your suggested solution is perhaps one that the government might want to consider, which is, I gather, to use the flexibility on the rights of way to accommodate your increase on your buildings and on your marshalling yards.

Another thing I would say is, be a little bit careful when you come to committee saying your taxes declined by that amount. We'll try and find out why.

Mr Ballantyne: That's what I said when we were researching this and I looked at that number; it really surprised me. As I said, I'm going to go back and look into that one a little bit further.

Mr Phillips: The tax collectors probably already are. On your broader point, I think it's an interesting debate, and that is, what should our transportation policy be encouraging in Ontario? Realistically, this is probably not the forum where that is going to be joined, only because we're dealing with a specific bill on a specific issue. I think we understand your issue and it's going to be a question of whether the government can respond to what I think their policy decision was with a specific amendment that accommodates it.

I think you made your points very well on it. I just bought a new car alarm and the thing doesn't seem to be working that well.

Mr Pouliot: I was raised in Montreal. How long does it take to steal a car?

Interjections.

The Chair: Thank you very much for coming today. We appreciate it very much.

PROFESSIONAL ASSOCIATION OF CANADIAN THEATRES

The Chair: Will the Professional Association of Canadian Theatres please come forward, Pat Bradley, executive director. Welcome and thank you for coming.

Ms Pat Bradley: Thank you for listening to me today. I certainly won't take half an hour in my presentation. I shall be brief.

I am here to speak specifically to the provisions of Bill 149 that deal with the exemption from property taxes of small theatres, defined as those with fewer than 1,000 seats.

My name is Pat Bradley. I'm the executive director of the Professional Association of Canadian Theatres. PACT is the national trade and service organization for anglophone professional theatre across the country. We represent every size and style of Canadian theatre, in every province and one territory.

Some 44% of our membership of 111 theatres is in the province of Ontario, which is hardly surprising given that Ontario has been, over the past few generations in any case, the centre of English-speaking cultural activity in the country. Of those 49 member theatres in Ontario, 30 are in what is now Metropolitan Toronto, soon to be the city of Toronto. The others are throughout Ontario in communities such as Manitoulin Island, Stratford, St Catharines, Morrisburg, Ottawa, Sudbury, London, Drayton, Hamilton, Thunder Bay, Niagara-on-the-Lake, Barrie, Port Dover and Lindsay. I've probably offended a few of my members by leaving their cities out.

We welcome Bill 149 in that it provides a level playing ground in an area that is currently a patchwork of practice across the province, and indeed inside individual municipalities, including Metropolitan Toronto.

The Grand Theatre in London, for instance, pays no property tax. This is in recognition of the contribution that theatre makes to the city of London in economic benefits, jobs, tourist attraction and general cultural activity.

Theatre Aquarius in Hamilton, as another example, has recently been declared a civic facility by the regional municipality of Hamilton-Wentworth, thus relieving the company from property taxes. However, they had been in a severe property tax arrears situation until a partnership between the government and a private donor got them out of an in excess of $1-million tax bill.

Within Metropolitan Toronto, practice is all over the map. There are number of other municipalities that collect full property taxes. In Metro, Young Peoples' Theatre, for instance, and Buddies in Bad Times Theatre which I believe you will hear from later today, are both in municipally owned facilities and both pay property tax to the tune of $129 per seat in the theatre. The Alumnae Theatre in Toronto, municipally owned, is completely exempt from property tax. Other not-for-profit theatre companies in buildings in Toronto they themselves own or rent pay amounts varying from $41 per seat to $157 per seat.

Obviously Bill 149 will provide a more dependable and equitable approach to property taxes for theatre companies across the province.

We would urge the ministry, in developing the regulations concerning the exemption, to be even-handed and straightforward in defining eligibility, to ensure that the obvious intention of the bill of levelling the playing field and being equitable is maintained. PACT and its Ontario-based member companies would be pleased to be consulted during the development of the regulations.

PACT also welcomes the ministry's rationale for Bill 149's proposed property tax exemption. The release from the ministry concerning this element of Bill 149 noted the contribution that not-for-profit theatres play in "act[ing] as a training ground for the industry," meaning the commercial theatre industry, and in recognition of "the vital contribution of small theatres to the industry."

These observations are accurate and indeed have been made many times by those commercial theatre producers who have made their base Toronto, rather than Chicago, Los Angeles or New York. Commercial theatre production, and indeed television and film production, which is big business in Ontario, would not be here and indigenous to this province were it not for the outstanding professionals — actors, directors, writers, designers, craftspeople and technicians, and producers — who have received their training in the province's not-for-profit theatres.

Having acknowledged that, I would like to take a moment to point out some of the many other benefits not-for-profit theatres provide to communities across this province, and which are also, I think, acknowledged by this part of the act. They hire local artists; they tell local stories; they provide educational opportunities to students, both within the schools and within the theatres; they are an essential meeting place for communities. The spillover to providing an industrial base is a fortuitous result, not the raison d'être of our province's theatres.

Which brings me to my last point, one of context. The measures of Bill 149 that relate to tax exemptions for theatres are indeed welcome. They do not, however, by any stretch of the imagination, begin to repair the damage done in Ontario communities by the continuing and dramatic cuts to the Ontario Arts Council and the Ministry of Citizenship, Culture and Recreation. I think every Ontario resident understands the fiscal reality we live with in the 1990s. I know the arts community expected cuts to the Ontario Arts Council, as there have been cuts in every area of service to the public. The actual cuts, at 40% to date, have far exceeded reasonable expectations.

To give some context again, best estimates of the savings theatre companies in Metropolitan Toronto will see through the property tax exemption are in the $190,000 to $250,000 range. If we double — which is a generous estimate given the number of theatres that are in Toronto — that figure for the entire province, we see an amount between $380,000 and $500,000 that no longer needs to be spent. Since 1994-95 the funding to Ontario communities through the theatre programs of the Ontario Arts Council has been decreased in excess of $2.9 million.

But, I will say again, we do welcome this measure of Bill 149 as the beginning of the rebuilding of the professional theatre sector in Ontario. Thank you for your attention.

The Chair: Thank you very much. We have approximately 23 or 24 minutes for questions. We'll start with the government caucus this time.

1410

Mr Grimmett: I wonder if perhaps you could comment: On the first page you've listed some of the theatre companies that will benefit from the smaller theatre exemption, and that is based on the 1,000 seats per theatre. What would be the average size of these theatres, in number of seats?

Ms Bradley: I have members all over the map. The Stratford Festival, for instance, has a theatre that is well over 1,000 seats. Some of my members have theatres that are about 100 seats. The mid-sized theatres across the province are in the 200- to 450-seat range, most of them.

Mr Grimmett: There are three at Stratford, right? They wouldn't all be over 1,000.

Ms Bradley: Yes. The biggest one is over 1,000, the others are under 1,000.

Mr Grimmett: Would Queen's Park be a theatre under 1,000? I guess it would be.

Ms Bradley: I'm not quite sure how many seats are in the spectators' gallery.

Mr Grimmett: I think there are fewer than 1,000.

Mr Doyle: We know they're bad actors.

Mr Grimmett: We won't ask you to get into that. I wondered if you might comment on the implication of the exemption. Will it possibly translate into lower ticket prices?

Ms Bradley: In the long run it might very well. The severe fiscal reality is that most not-for-profit companies

are operating at a deficit. Many of them have been climbing out over the last few years but are encouraged by funders — the Ontario Arts Council, the Canada Council and others — to get their fiscal houses in order. I suspect that, like the province and like the country, until that fiscal house is in order there won't be a drastic lowering of ticket prices.

Mr Grimmett: Even though you comment on the fact that the Ontario Arts Council has been providing funding in the millions in the past, it hasn't prevented individual theatres from running up deficits.

Ms Bradley: No, it hasn't.

Mr Ted Arnott (Wellington): I think it's fair to point out and add that there are quite a number of theatre groups that don't receive a penny of Ontario Arts Council funding. I represent the village of Drayton. The Drayton Festival, which is well known now, I don't believe has ever received grants, but they have a theatre that I believe is owned by the village. How would it have worked for them? Would they be paying property tax previously?

Ms Bradley: I should have checked with Drayton because I can't quite answer that. If I recall correctly, the arrangement they have with the village involves that they pay no property tax. I'm not positive of that. In some instances it won't actually have an effect on companies.

Yes, indeed, the majority of theatre companies in the province are subsidized through various arts councils. Many of them that aren't are subsidized in different ways: in tax exemptions, in special deals with municipalities and villages.

Mr Arnott: Thank you very much for your support of this provision of Bill 149.

Mr Grimmett: I just wondered if perhaps you could comment on the type of employment these theatres offer. I know there is a certain unique group of people who benefit from having theatres when they graduate from university or when they come out of certain courses. I suspect a lot of them are in the youth employment. Do you see this as being of benefit to that group?

Ms Bradley: Absolutely. Certainly the smaller theatre companies, and a group of theatre companies that isn't really affected by this because they're primarily touring companies for young audiences through schools, are huge training grounds for graduates from university and other training programs. The arts worker in Ontario is among the most highly educated and highly skilled worker in a variety of sectors. The smaller companies certainly provide huge opportunities for youth.

The Chair: We'll go to the Liberal caucus.

Mr Phillips: I appreciate the work you and your members do. Just so I'm clear on your expectations here, of your 49 members in Ontario, have you any idea how many of those would currently not be paying property tax?

Ms Bradley: I could give you a rough estimate. Because I didn't know I was coming here until Friday, I didn't have time to do all the research. Probably about a third of those are non-building-based companies. They don't have a home that they always appear at, so they would be renting facilities. Of the others, perhaps less than a third don't currently pay property tax. I would say just less than a half of my members in Ontario will likely see some effect with this bill.

Mr Phillips: Your expectation is that in total it should reduce their expenses by somewhere between $380,000 and $500,000.

Ms Bradley: That's my best guess right now.

Mr Phillips: Have you any idea how many other theatres there would be that are not members of your organization that would be impacted by this?

Ms Bradley: It partly depends on the regulations, because there is a large group of theatres that is not covered by my membership. They're not professional theatres, they're community-based theatres. It's unclear to me whether they would be affected, but the vast majority, certainly of anglophone professional theatres in the province, are in my membership.

Mr Phillips: I gather in Metro Toronto the bill will allow Toronto some special consideration for the larger theatres. Have you any comment on that?

Ms Bradley: I'm primarily representing not-for-profit theatres. I have two commercial theatre members currently: Mirvish Productions and Walt Disney Theatrical Canada Inc who are leaving — or, have left. There will be no change to the Mirvish Productions theatres, the Princess of Wales and the Royal Alex, because they're currently paying the full freight of their property tax.

Ms Marilyn Churley (Riverdale): I'm sorry I came in in the middle of your presentation. I'm replacing my esteemed colleague for a few minutes here, so if I ask a redundant question, please forgive me. I just had a quick look through your presentation. I understand from looking at the background information we've been provided with and your paper that there are regulations to be developed which will determine — this is where I need clarification — how theatres in general will be able to apply for this exemption. Can you expand on that a bit, your understanding of how they can do this in such a way that there will be an even playing field? That's yet to be determined?

Ms Bradley: Yes. As I understand it, the regulations to be developed will deal with eligibility. I would imagine they will deal with issues like form of corporate organization, whether it's a not-for-profit society or a municipality or a for-profit organization that owns the space, and perhaps also the type of organization that operates in it. As I have alluded to, I'm not sure if this would apply to community-based theatres as opposed to professional theatres. These are the issues I would expect the regulations to deal with.

Ms Churley: You're recommending, of course, that it would apply to community-based theatres.

Ms Bradley: Although I don't represent community-based theatres, I would certainly recommend it because they are even more widespread in the province and provide additional opportunities for Ontario residents to enjoy the professional theatre and —

Ms Churley: Is it really a hodgepodge now of who pays taxes?

Ms Bradley: A complete hodgepodge, yes.

Ms Churley: How is it determined, municipality by municipality, private member's bills, that sort of thing?

Ms Bradley: Private member's bills, which have been very difficult to get in all these instances in the last 10 years or so; individual municipalities; and in some instances both municipal and regional governments, when that's an issue, have been highly in support of property tax exemptions, but the school boards, which are now the other part of the tax bill, were unwilling to let go of the tax money they had, given their financial constraints.

Ms Churley: Speaking of that, right down the hall from here there's a discussion going on around Bill 160. If that bill goes through as it is, this government, by regulation, will be making those kinds of decisions down the road, because the school boards are virtually being eliminated, but that's another story.

I just have one last question for you. I note in the last paragraph of your submission you say this is a welcome step in terms of trying to deal with the fiscal problems theatres are experiencing. What other recommendations do you have for the government at this point? I know there are a lot of theatres in trouble. If you had one other thing you wanted to advise the government on today that the theatre community needs, what would it be?

1420

Ms Bradley: I would say to sustain support of the Ontario Arts Council. The Ontario Arts Council is the most important building block and policy tool this government has for sustaining the arts community in Ontario. It's taken severe, severe cuts. It's surviving as it is, and another cut will cause a lot of hardship across the province and a lot of job loss.

Ms Churley: That opens up the whole question that there are those who believe that if theatres can't survive on their own — I believe not all the government members but some people feel that way, that it's private enterprise, and you either make it or you don't. What would you say to that?

Ms Bradley: I would say that there isn't a developed country in this world that doesn't have some form or another or a combination of forms of government support of the arts, whether it's direct subsidy, as it is in most of the European countries, or whether it's encouragement of corporate donations and foundation donations, as it is in the United States. We have an odd combination of both, and to expect that the corporate sector will pick up where government left off is unrealistic in the short term.

Ms Churley: So in the long run we could lose out on a lot of this job creation and the tourism and all of the other aspects that go along with theatres and communities.

Ms Bradley: Absolutely.

The Chair: Thank you very much for a very interesting and helpful presentation.

Ms Bradley: Thank you very much.

N0N-PROFIT INTERNATIONAL BRIDGE COMMISSIONS

The Chair: Would Ron Lampman, the secretary-treasurer of the Buffalo and Fort Erie Public Bridge Authority, come forward, please. Thank you for coming. You have 30 minutes for your presentation, the time to use as you wish. If you'd like to leave time after your presentation for questions, I will divide the time equally between the three caucuses that are present on committee.

Mr Ronald Lampman: My name is Ronald Lampman and I am secretary-treasurer and Canadian officer of the Buffalo and Fort Erie Public Bridge Authority. I have been chosen to represent five international non-profit bridge commissions. These include the International Bridge Authority in Sarnia, the Buffalo and Fort Erie Public Bridge Authority in Fort Erie, the Blue Water Bridge Authority, the Niagara Falls Bridge Commission, and the Ogdensburg Bridge and Port Authority.

We are pleased to have the opportunity to address the standing committee on Bill 149 this afternoon dealing with the Fair Municipal Finance Act (No. 2). We have been strongly supportive of the government's objective to bring fairness and consistency to the legislation and the regulations to affect the non-profit bridge industry. We appreciate the government's move not to tax bridge spans. However, we are concerned that the method the government has proposed in assessing the non-profit bridges for taxing purposes does not reflect the unique status of these non-profit bridges.

The taxation structure of international bridges has been confusing and inconsistent. Most of the bridge commissions have been taxed differently depending on the enabling legislation of each commission. It has proven to be a difficult task to develop acceptable taxation solutions.

Some of the complex factors for taxing of international bridges and tunnels are as follows:

(1) Some of the crossings are municipally owned; for example, the Windsor tunnel between Windsor and Detroit.

(2) Some authorities are binational; for example, the Blue Water Bridge, one half of which is controlled by the Michigan Department of Transportation and the other half by the Blue Water Bridge Authority, which is a federal entity representing Canada.

(3) Some of the crossings are private entities, whereas all others are not-for-profit public service authorities. For example, the Ambassador Bridge between Windsor and Detroit is a private entity, whereas the Peace Bridge in Fort Erie, Ontario, has federal legislation jurisdiction in Canada and state jurisdiction in the United States, whereas upriver, the three bridges that are represented by the Niagara Falls Bridge Commission have federal legislation jurisdiction in the United States and provincial in Canada.

(4) The economies of scale due to the enormous traffic variations between these crossings affect the affordability to the extent that several of the crossings already operate at a deficit.

The international bridge community supports the Ontario government's concerted effort to enact a fair and consistent taxation policy in this primarily public-benefit area of service. The government's Who Does What panel has recognized the bridge authorities' concern regarding the existing inconsistency in taxation practices and the

problems of enforcing tax obligations. Recognizing that the government has reviewed several policy options, the non-profit bridge commissions are also highly supportive of the government's decision not to tax bridge spans. The bridge commissions also support the provision in the Fair Municipal Finance Act that states that bridge structures will not be taxed but would be subject to a nominal payment prescribed by the Minister of Municipal Affairs and Housing.

However, the international non-profit bridges believe the proposal to base assessment on revenues does not appreciate the unique position of the non-profit bridges. They are concerned that the revenue-based test valuation model being considered by the ministry increases the opportunities for annual taxation fluctuations. The non-profit bridges are unique entities providing the trade links from the provincial highway system to the United States highway system. These bridges require capital-intensive and long-term operating plans to responsibly provide the infrastructure necessary for trade and tourism. In order to responsibly provide the infrastructure necessary for trade and tourism, significant capital investment is required. The unique non-profit bridges would be better served through a stable, prescribed levy tax situation.

The joint Canada-United States non-profit public service agencies operate the international crossings with equal representation from both countries. No public funds have ever been used for the construction, operation, maintenance or for capital expenditure by the non-profit bridge commissions. All financing has been done from private and institutional funds, and in most cases secured in the United States because of a favourable tax advantage.

In addition to maintaining a large transportation infrastructure network, the commissions provide, at no cost to Canadian taxpayers, all facilities required by federal services, which include immigration and customs operations at the seven non-profit international bridges.

The Ontario border has developed into the largest commercial and tourism connection in Canada. The 13 bridges and one tunnel carry up to 60% of all exports to the United States and over 40% of all NAFTA-based trade. With 72% of the Canadian population living and working within a 150-mile corridor, the 110 million border trips translate into one million jobs. Funded primarily through private United States bond issues, the bridge commissions receive no government subsidies for their operations or capital improvements.

Steadily increasing demand and new area attractions such as the casino in Niagara Falls have been leading to the development of modernization and expansion projects. The Peace Bridge is currently implementing a $200-million capital plan that includes the twinning of the bridge. Several of these bridges are currently in the process of implementing multimillion-dollar, multi-year improvement projects. I think you're certainly aware of the twinning of the Blue Water Bridge at Sarnia. These projects include a total modernization and reconstruction of the Rainbow Bridge processing facilities and a new transportation corridor for the Whirlpool Bridge. These initiatives are intended to respond to ever-increasing vehicular border crossings. The increasing demands have created an even greater urgency to these major capital expenditures for crossings and customs and immigration facilities.

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For the long-term planning required for these major capital improvement projects, the bridge commissions depend on a stable and predictable taxation policy. The bridge commissions support the objective of the Ontario government's proposed legislation to bring fair and consistent taxation to international crossings. However, the non-profit bridges are concerned that a new taxation structure does not adequately address the long-term stable rates.

Unlike other commercial sectors, the non-profit international bridges are unique. Because the authorities operate as non-profits, not profit-generating centres, it will be difficult for the Ministry of Finance to treat them like other commercial enterprises for several reasons:

(1) Similar commercial land in the vicinity is only valuable because it is near the bridge, not because of any outside economic factors. The bridges should not be penalized for providing the service that brings economic opportunity.

(2) The bridges are non-profit, with limited revenues. There is no distribution of profits. All profits are reinvested into the facility and utilized to service capital debt for capital improvements. To increase taxes on these revenues removes any incentives for improvements and other capital expenditures in Canada.

(3) Several of the bridges are located on lands that have significant archaeological deposits that reduce the value of properties and restrict development.

(4) The bridge commissions require long-term certainty on taxation levels and policies. Adopting a model based on fluctuating property values is unacceptable.

(5) The bridges provide necessary customs and immigration infrastructure services to the federal government at no cost to the taxpayers of Canada, including maintenance and janitorial services.

The non-profit international crossings provide a unique service and should not be treated like revenue-generating bridges or other commercial property owners. This could prove to be very costly to the province for various reasons.

First, capital program commitments are already in place, financed with United States held and issued bonds. These long-term bonds are indentured to cash flow. A disruption puts them in jeopardy, including opening them to serious challenges. From the Peace Bridge perspective, we have outstanding debt of $53 million incurred in 1995 that has been guaranteed with future revenue streams.

Second, most not-for-profit international bridges are already bound into major infrastructure expansion programs financed by private United States bond issues. The indentures already include fairly aggressive toll increase schedules over the next decade calculated to the maximum point of consumer resistance. Further increases as a result of new taxes may drastically reduce discretionary crossings and actually reduce toll revenues. The non-profit bridges

cannot contemplate this position without encountering financial and legal entanglements potentially able to prohibit the repayment of one or the other. Such a situation would create an insolvency imponderable to the government as well as the bridges.

Third, the vast majority of existing and proposed capital construction is for the sole use of customs, immigration, and Agriculture Canada, with no reimbursement for capital or overhead from the government. In the United States, crossings get 100% reimbursement from the federal government and 100% tax exemption from the state. In Canada, the federal government imposes the costs of improvements on the bridges, and now the province will allow the higher taxation of those improvements by allowing MVA to be imposed on imputed rental incomes. Forcing these non-profit commissions to pay taxes on nonexistent revenues provides no incentive for the bridges to develop capital improvement projects or maintain existing public service capabilities in Canada.

In summary, the Ontario border has developed into the largest commercial and tourism connection in Canada and carries up to 60% of all exports to the United States. The free trade market and economic growth are pressuring the bridge commissions to modernize and upgrade facilities. For example, the Niagara Falls Bridge Commission is currently implementing a $220-million, 30-year, three-bridge improvement program being funded by United States bond issues. The other bridge commissions are also planning large capital works. These projects could be threatened if the bridge commissions are faced with the uncertainty of rising taxes.

With leveraged financing and subsidies to federal ministries, every dollar extra in tax to the non-profit crossings translates into $40 to $50 less available for capital expansion and maintenance infrastructure. These severe cash flow implications will oblige every authority to revisit their plans for new federal processing facilities, new infrastructure and investments in international accord initiatives for cross-border trade enhancement and expedition.

Historically, the authorities have also invested millions of dollars into volunteering significant road work, building and mitigation to the direct credit of MTO and the municipalities; for example, the Peace Bridge and Whirlpool corridor. These good-corporate-citizen initiatives are threatened by the current uncertainty surrounding these taxation issues.

Independently funded, non-profit crossings provide extensive direct and indirect benefits for the Canadian economy. Not only do the bridge commissions provide crossing services to businesses and individuals, but they provide the infrastructure necessary for government border and inspection facilities.

The non-profit bridges are committed to working with the government to develop a strategy to ensure that a reformed tax structure allows them to continue to provide these necessary services to both Canada and the United States.

Thank you, Mr Chairman.

The Chair: We have about 16 minutes for questions.

Mr Phillips: I view our international bridges as absolutely essential to our economy. Some 90% of our exports go to the US. Just-in-time delivery of our auto parts — I always worry if I see a truck waiting for 10 minutes at a border because I think it jeopardizes our parts industry whenever there's a holdup at the border. So I think this is an extremely crucial issue for Ontario of ensuring we have the infrastructure to accommodate our commercial traffic, and I don't mean to underestimate the importance of our tourist traffic. So you got my attention at least.

The way it had been described to us was sort of as a fairly benign little change in the bill designed to provide for a level playing field and that everybody would simply be treated equally. I frankly hadn't focused a lot on this aspect of the bill. I simply thought it was kind of housekeeping and a tidying up of something that needed tidying up. You've indicated to us significant concern, at least if I hear you properly. Is this a major issue for us to be concerned about, in your opinion?

Mr Lampman: Yes. It certainly is a major issue that we look at from the perspective of the non-profit bridges. For example, and to give you an idea of some of the inconsistency that existed, one of the Niagara Falls Bridge Commission's bridges at Queenston was covered under the former international municipal payments act and was paying approximately $80,000 in taxation to the town of Niagara-on-the-Lake. Looking at the Peace Bridge, ours being based on an assessment base, we're being asked to pay 10 times that amount of money in taxation annually — levels of traffic and some of those other issues. So I think there is a level of concern with respect to the fair and consistent playing field for all international crossings.

Mr Phillips: That sounds like there's a need for drastic change. Does this bill accommodate your concerns in that area?

Mr Lampman: In some respects it does, but in addition we have had some concern with the test valuation model that we have had the opportunity to review. We believe that from a non-profit perspective, we would be better served by a stable prescribed levy tax situation versus looking at a test valuation model that has been suggested to us.

Mr Phillips: So the bill would correct this one bridge paying $80,000 and you paying $800,000 a year in taxes; this bill does address that.

Mr Lampman: Yes.

Mr Phillips: But I gather you're saying it raises some other concerns.

Mr Lampman: It raises some other concerns with the test valuation model that we have been able to look at that has been a revenue-based model. From our perspective, we don't feel that a revenue-based model fits the situation with respect to non-profits, and hence what we're looking at is the possibility of having the non-profit bridges being covered by a stable prescribed levy versus a revenue-based model that we've seen in the test valuation model.

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Mr Phillips: On one hand, you want a level playing field with the for-profit bridges —

Mr Lampman: The not-for-profit bridges, yes.

Mr Phillips: So you want a level playing field with the not-for-profit bridges. You represent the non-profit international bridges.

Mr Lampman: Yes, I do.

Mr Phillips: You want a level playing field with who again?

Mr Lampman: For the not-for-profit bridges, yes. We think we're distinct, unique entities when compared to for-profit bridges.

Mr Phillips: I'm trying to figure out where the level playing ends. If you are a for-profit bridge, you don't mind different tax treatment.

Mr Lampman: That's correct.

Mr Phillips: Just help me with the rationale for that. I have crossed, I guess, every bridge and I'm not aware which one is not-for-profit and which is for-profit.

Mr Lampman: The bridges that I represent, which are the Niagara Falls bridges, the Blue Water Bridge and the International Bridge in Sault Ste Marie, are not-for-profit bridges. The for-profit bridge that we would be looking at would be the Ambassador Bridge. From our perspective we have enjoyed, especially the Blue Water Bridge and the Niagara Falls bridges, which were covered under the previous international municipal payments act, a very stable taxation situation.

With respect to that stable taxation situation, our financing is done with respect to 30-year bonds. When we're looking at 30-year bonds and going to the bond market for 30-year bonds, we need to recognize a stable environment with respect to the taxation situation. In view of the fact that the Blue Water and the Niagara Falls bridges had enjoyed that under the former international municipal payments act, what we're looking for is the balance of the non-profits to be covered under that stable environment.

With respect to the Peace Bridge, although they were looking at and announced a taxation that was in the amount of \$800,000, we had been negotiating with the municipality since about 1979 in order to negotiate an amount of taxation. The negotiated amount of taxation was approximately \$300,000, whereas under the assessment base we would be looking at \$800,000, and then of course there's another methodology that would be under Bill 149.

What we are looking for is the maintenance of a long-term, predictable amount of taxation in concert with what was in place when those other bridge authorities went to the bond market. Any interruption in that is certainly going to cause them some difficulties in servicing their debt.

Mr Pouliot: I got a lot from your presentation. At every opportunity you keep reminding the committee that — not the unique but the special circumstances surrounding your non-profit financing arrangements. All of your placements are private placements, are they not? The debentures?

Mr Lampman: The debentures, yes. They're private or institutional in the United States. The reason why we do the placement in the United States is, we have unique taxation practices that are applicable to the bonds. In other words, any investors of our bonds in the United States are exempt on a state and a federal basis. What that does is give us a major tax advantage whereby we gain, so therefore our debt servicing is significantly less than it would be for non-tax-exempt —

Mr Pouliot: You have therefore no government guarantees backing your bonds.

Mr Lampman: No, neither state nor federal in Canada.

Mr Pouliot: What is the average maturity of your bond and what would be a median amount of floating? How much are the bonds for, and over a certain period of time? You've indicated that one would be over 30 years.

Mr Lampman: The general term of our bonds is a 30-year term. That's usually the investment rate.

Mr Pouliot: Okay.

Mr Lampman: Currently at the Peace Bridge we have outstanding bonds in the amount of \$53 million. The Niagara Falls bridges, currently the outstanding indebtedness there I believe is about \$121 million.

Mr Pouliot: The determinant as to what the coupon rate will be is based on your projected revenue; hence the need for stability.

Mr Lampman: Right. Net cash flows and the stability related to those.

Mr Pouliot: If you were to analogue, to offer a similar but government-backed project like in the province of Ontario, is it your opinion that it would cost 25 to 50 basis points less if it were government-backed?

Mr Lampman: We have never gone to the market with those capabilities because we don't have that in our enabling legislation. However, when talking to our underwriters in the United States, there are a lot of other issues that will be dependent upon the bond rate, but I think that our ability to show them stable net cash flows in the past has allowed us to pursue the bond market very aggressively.

Mr Pouliot: This reads like a series of omissions. It was drafted in a hurry and I don't apologize on behalf of the government, but it's not the way one would conduct their business affairs. It's not due diligence at its highest; in fact, quite the contrary.

Is it your opinion that what you have here is a substitution — however bad or inconsistent the system is at present, it is a system that you can relate to, for it is a given. The marketplace will relate to it, so it comes out in the equation. However, what you have here, the proposal is sort of a user-pay. It's an unusual levy when you're on a limb there with a 30-year debenture. If I were a bond-rating agency — let's say you would be more consequential, and why not? — I would certainly look at the inconsistency. This could play havoc with your financing, could it not?

Mr Lampman: You're absolutely right, because with respect to the \$200-million capital plan that I spoke of at the Peace Bridge, there is a series of financings that we are looking at, first of all, in the first quarter of 1998, and

another financing in the year 2000 is planned when we're looking at construction of the bridge. So what we're looking for is a stable taxation situation so that we can go forward with our cash-flow projections over a 30-year period.

Mr Pouliot: I understand. I don't know, but candidly this is not the intent and the spirit of 149. Maybe you fall through the cracks or we didn't listen as a Parliament long enough, because these kinds of situations need not be addressed. It's not the intent of Bill 149. You're not out on a limb, but you're out there competing in the marketplace, a dollar's a dollar, in a very volatile environment. Your capital, your coupons are pro-rated over a long period of time and are based on a given. There's some speculation in terms of revenue, but there is no speculation as to the fee that the government will charge you. Now come these people with a user fee, for which you have yet no description, because you don't know that. You don't know how it will be collected. You don't know how often it will be collected. You don't know what will be collected. What are the criteria for the proposed user fee?

The Chair: Mr Pouliot, your time has effectively expired.

Mr Pouliot: Thank you.

Mr Grimmett: I'd like to continue the line of questioning on the revenue-based model. In your brief, Mr Lampman, you've indicated that the bridges you represent support the government's idea to not tax bridge spans, that bridge structures will not be taxed but will be subject to a nominal payment. Let's just get that clear. You support the thrust of Bill 149 in removing bridge spans from the municipal assessment system. Is that correct?

Mr Lampman: Yes, we do.

Mr Grimmett: Why would that be?

Mr Lampman: Essentially we believe there are some significant difficulties in assessing bridge spans, the first issue being that you're looking at an international structure here; hence half of the structure is within the United States. In addition, if you look at one of our binational crossings, which is the Blue Water Bridge at Sarnia, you have half of the bridge being maintained by another country, the Michigan ministry of transportation. Therein lies some difficulty in trying to evaluate what the bridge may be worth because the levels of maintenance that one international government is applying versus the other may not be consistent. I guess the real issue comes down to how you value half a span.

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Mr Grimmett: That doesn't create a lot of certainty for your organizations, the current model.

Mr Lampman: From that perspective. But in addition, when there is a fixed amount, I think it allows the government the flexibility to establish a range whereby they may prescribe these amounts dependent upon these facilities.

In addition, you may have four-lane bridges and you may have three-lane bridges and you may have two-lane bridges. Bridges may be 3,000 feet long; some bridges may be 100 or 200 feet long. You have those varying types of structures that may be there that we would hope would allow some latitude within the prescribed amount.

Mr Grimmett: Let's look at the test model, the Peace Bridge. What has been the experience there in terms of the amount of tax they pay?

Mr Lampman: With respect to the model for the Peace Bridge, we have met with the Ministry of Finance previously and of course there was a very significant project in Canada, totalling $48 million that was going to be constructed on the Canadian side of the facility.

If I may bring another point to bear, we have at the Peace Bridge five members from the United States and five members from Canada, and the US members were very, very sensitive to this. In viewing the model with officials at the Ministry of Finance, we had looked at a range of taxation that was appropriate so that we could go ahead with the awarding of that contract, that was at that point in time in serious jeopardy, mainly because of the construction season fast closing in on us. So there was that issue where we had looked at the model.

In addition, there were some areas in the model that we had looked at, such as land values, imputed rents by the federal government that certainly didn't give us a high level of comfort.

Mr Grimmett: But what is the experience at the Peace Bridge? What are they paying and what have they been paying?

Mr Lampman: The Peace Bridge, at the current time, would be paying over $800,000, based on the current assessment. We have negotiated —

Mr Grimmett: What are they in fact paying, though? Are they paying $800,000?

Mr Lampman: We are in fact paying the last amount that we had agreement with, and there are provisions in the legislation for us to negotiate 1996 and 1997 with the local municipality. So the last amount that the municipality had agreed upon was about $296,000 in 1995. Previous to that, in 1993 and 1994, they had agreed on amounts with bylaw that were less than that amount of money.

Mr Grimmett: What is the experience with the revenue-based model?

Mr Lampman: Can you be a little bit more specific?

Mr Grimmett: Are we not using the revenue-based model now with the Peace Bridge?

Mr Lampman: Not using it at the present time?

Mr Grimmett: I thought we were using that as a test model.

Mr Lampman: In the test model we were, but there were some considerations there and one of the difficulties was the imputed rent for customs and immigration facilities whereby on a market basis we don't believe they would have any value because there is no rent from these facilities and we have to provide the capital infrastructure. In addition, we have to provide the janitorial and maintenance services, so we have some difficulty with the imputed rent there as well.

The Chair: Thank you very much, Mr Lampman. Your time has expired. We appreciate your presentation very much.

ONTARIO GRAPE GROWERS' MARKETING BOARD

The Chair: Would Mr Jim Rainforth, secretary-manager of the Ontario Grape Growers' Marketing Board, please come forward. Thank you for coming today. Could you please identify yourself for the record. You have 30 minutes to use as you wish.

Mr Jim Rainforth: My name is Jim Rainforth and I'm the secretary-manager of the Ontario Grape Growers' Marketing Board.

On behalf of the Ontario Grape Growers' Marketing Board, I thank you for the opportunity to appear before your committee on Bill 106, The Fair Municipal Finance Act, 1997.

The assessment of farm lands has always been of special interest to the agricultural community. This interest certainly became more focused, particularly to the grape and wine industry, in the spring of 1997 with the action precipitated by the local assessment office and their interpretation, particularly as it related to the cottage wine industry in the Niagara region. The interpretation at that time, under the existing legislation, was devastating to this really dynamic industry. The implications to numerous other value added enterprises on farms throughout Ontario were of broad and significant concern as well.

The grape and wine industry, if I can make a bit of an addendum to the paper you have in front of you, has been and continues to be a very significant tax contributor to the treasury of Ontario, so we're used to being taxed fairly highly. On the back of your document there is a page that says where the dollars go. That's not what I'm here to talk about, but I put it in simply as a backgrounder on the taxation issues that the industry does encounter.

One cannot speak about the wine industry, in Niagara in particular and in Ontario in general, without being enthused about its recent past and its foreseeable future. Similarly but perhaps with less publicity, one must reference the value added businesses in other speciality areas of horticulture and agriculture throughout the Niagara region and indeed throughout the province, value added on-farm processing that appeared to be at extreme risk with the Niagara interpretation of the Assessment Act.

The government of Ontario, in particular the Ministry of Agriculture, Food and Rural Affairs, has consistently and strongly supported value added as a concept good for Ontario's agriculture and for the individual farm families involved in value added agriculture. Many value added projects would appear to have been subject to the Niagara interpretation, should that interpretation have gone unchallenged in the spring of 1997.

In addition to the cottage wine industry of regional Niagara, a few examples to cite include the numerous grape juice processing facilities, Ontario's sour cherry industry, which following the free trade agreement of 1987 has moved from selling to a few major companies towards on-farm pitting operations, as well as the peach and apple commodities, which have also moved towards on-farm processing in recent years. I am confident that the non-horticultural on-farm processing value added industry looked with equal concern at the Niagara interpretation to on-farm value added processing as an untenable possibility for those activities as well.

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Ontario's grape and wine industry is heavily oriented towards Niagara in terms of grape production, with our most recent statistics showing 95% of Ontario's vines are located in Niagara. The remainder are largely on the north shore of Lake Erie on the south part of Essex county and the south parts of Kent county, a very thriving young industry in that area but still relatively small.

Growers are investing heavily in new plantings, either on new land or replacement of older vineyards or on land made vacant by the massive removal program of the late 1980s. Our board statistics indicate that some 700 to 1,000 acres of new vineyards have been planted annually for each year of this decade and that's at a total investment cost of more than $10,000 per acre, not counting the purchase price of the land. This is a very substantial investment and one which is quite obviously dependent upon the continued success of the Ontario wine industry.

Indeed our statistics project that by the year 2000, Ontario vineyards will produce nearly 15,000 metric tonnes of the vinifera grapes. These are the grapes that are recognized worldwide as those grapes required for world-class table wines. In 1980, Ontario produced less than 1,000 tonnes of this type of grape, so there's been a tremendous investment and a tremendous improvement in the production capacity of our grape growers to meet the needs of today's successful wineries.

Attached to your presentation are some statistics which cite the tonnage projected to the year 2000 and it shows clearly there that vinifera should achieve approximately 15,000 tonnes by that year. Those are grapes that are in the ground today, some of which have not yet come into bearing. You can see that the grape industry has a heavy investment in the future of the industry and a real interest in the legislation that is before us now.

Favourable action by the government of Ontario in response to lobbying by Ontario's grape and wine industries has in the past helped immeasurably in developing this current positive scenario. This province's support of the industry during the tumultuous times of the free trade discussions led to positive developments that are showing up down the road, some 10 years later, including the removal program, the support program and the support to Ontario's wineries in upgrading their facilities.

The province of Ontario's recognition of the need for Sunday shopping in Ontario's onsite winery retail stores and the permission to use credit cards in all of Ontario's winery retail stores in 1991 aided tremendously in the turning of winery tourism from a small part of the industry into the tremendous success that it experiences today. It's a success story that is widely used as an example of a commodity success story in today's discussions on how to improve an industry or to use as an example.

It is against this background that the assessment interpretation within the Niagara region in the spring of 1997

was especially troublesome. The response to the industry concern and the subsequent action included under Bill 106 have to a large extent addressed the concerns of the grape grower in terms of fairness within the various types of wineries in Ontario and, additionally, would seem to be supportive of fair taxation vis-à-vis the wine industry and non-agricultural taxpayers as well.

I might say that in the interpretations in the spring there seemed to have been some degree of unfairness between the assessment as it was interpreted between the big wineries and the small wineries, and I would commend the government in their amendments for having, among other things, looked after that inequity, and I expect you'll be hearing from other parts of agriculture.

Additionally, it would seem to set the framework in terms of assessment of on-farm processing of agricultural commodities and value added in the broader agricultural community. I referred earlier the sour cherry processing industry. That type of industry would fall very similarly to the cottage wine industry.

In summary, I express again the appreciation at having the opportunity to appear before this committee on this very important issue in the grape and wine industry. It was an issue which posed great potential risk for this and other value added operations in Niagara and in Ontario agriculture generally. It is the position of the Ontario Grape Growers' Marketing Board that Bill 106 seems to have addressed this issue positively and with a resolution that is acceptable to our industry.

Mr Chairman, that concludes my comments.

The Chair: Thank you very much for your presentation. We'll begin questions and it'll be approximately six minutes per caucus. We'll begin with the NDP.

Mr Pouliot: I thank the presenter. You have little to complain about. Diligence had you rectify what would have been damaging to the people you represent, those of the wine industry, but it's not unusual, it's not uncommon. The well-intended administration did correct what could have taken extraordinary proportions.

While listening intently to your presentation, sir, I couldn't help — since it was the courtesy extended to us, there was not a focus or a specific section or clause in Bill 149, nor did you come forward with some proposed amendment. Simply put, there was nothing wrong with 149 as it impacts, as it pertains to the wine industry.

Therefore, I did avail myself of the opportunity of looking at your projected figures when it comes to Labrusca, to Baco Noir, to Pinot Gris etc, and I thank you. I don't have any real questions because you've given us a tour and the benefits for all Ontarians. I was pleased with the humility at "world-class" table wines.

Off the record, could it be that we have underestimated our capabilities to grow, if there is any such thing, a competitive wine? You cite in your presentation that there's only one metric tonne left from 1980, of the old stock, if you wish, the old grapes, and yet not too long after in wine time — 17 years is a short time — and yet less than one fifteenth of your actual metric tonne production will be from the original stock in terms of plantation. What took place in that time, because you're looking at $10,000 per acre? That's quite a commitment. That's quite an investment on top of the price of purchasing the land.

1510

Mr Rainforth: Many things have taken place. Some have been unexpected and some perhaps predictable. A couple of things: The establishment of the Vintners Quality Alliance, which is a measure of quality you would see on a bottle of Ontario wine. If you look at the neck label at the liquor store or a winery store, you will see a "VQA" under premium quality. That has helped identify Ontario wines as premium wines.

Second, and I credit the previous Ontario administrations for having been very supportive, the Sunday shopping and credit card buying made tremendous differences in the small stores and consequently in the success of the industry.

Mr Pouliot: One last question: While I look at your 1996-97 figures and your projected figures to 2000, it seems the problem with drinking white wine is that it leads to red. I see quite a transition from white table wines and then almost the obligation, the commitment or the preference of the consumer to go to what is mostly a dry red. Am I correct that there has been a change in consumption habits or did you make that happen?

Mr Rainforth: It happened for a number of reasons, one of which I relate back to the support of the governments following the free trade agreement, in which a very significant promotion program was part of the activity. One other very significant happening, I believe, would have been the health aspect of drinking red wine which got wide publicity on US national television program. We are in full agreement with it, of course, but it said that red wine was very good for your health.

Mr Pouliot: Is that something you've been saying for a number of years, but finally the long-awaited studies have confirmed what everybody knew, what you certainly knew, that red wine is good for you?

Mr Rainforth: We would always have known that, I suppose. But it took the 60 Minutes show to focus it.

Mr Pouliot: I thank you very kindly for your presentation, sir.

The Acting Chair (Mr Ed Doyle): We're going to move on to the Conservative caucus. Do we have any questions from the Conservatives?

Mr Grimmett: I too wanted just to mention briefly the chart that shows the tonnage in the different classes. I have to say just as a suggestion — no criticism of your presentation today — that perhaps the next time you're here, if you have this kind of chart, it might be helpful if you brought samples so we could maybe take them home and better understand the different products.

Mr Pouliot: All three parties.

Mr Grimmett: Yes, I think we should treat all three parties the same.

I noticed in your brief that you haven't mentioned a whole lot about Bill 149. Are you aware that the bill permits the valuation of land under wine processing

buildings to be valued as farm land rather than commercial land?

Mr Rainforth: We are aware of that and we're in agreement with it.

Mr Grimmett: How would that benefit your industry?

Mr Rainforth: What it does, in the provincial assessment office located at St Catharines there was an interpretation of the small winery as to whether it was agriculture, commercial or industrial. The interpretation was that it was industrial, and the entire property then seemed to have been valued as industrial. Along with the market value that was being developed, it meant a tax increase of as much as 1,100% in some small wineries.

Mr Grimmett: Would that have included the fields with the vineyards?

Mr Rainforth: Yes, it was basically the farm, as I understand it. There were considerable meetings in this regard. There were some concessions, I would understand, from the assessment office in their interpretation, but it did not seem to be resolvable without more significant changes than the interpretation by an individual assessment office. This particular decision has basically kept the farm assessment as it was and assessed the winery as industrial. That had the effect of making the tax change much less significant than the initial interpretation. We're supportive of the change that has been made. We think it will be very helpful to small wineries in particular.

The Acting Chair: Now we'll move on to the Liberal Party. Questions?

Mr Phillips: I just applaud your industry. I recall back 15, 20 years ago when there was real concern about the future of the industry, and I think through a lot of hard work and perseverance it emerged into a true world-class product and, no question about it, a great future. All those responsible are owed a debt of thanks because it's good for Ontario.

The other comment I have is about the previous bill, Bill 106, which was the first bill and had several problems in it. I call them mistakes. I think Bill 149 is correcting one of the major problems which would have made, as you just pointed out, your industry susceptible to incredible taxes by counting your land as industrial land. That would have had the potential to do severe damage, if not permanent damage, to your industry. I take it from today's comments that your industry has looked at the current bill and you're satisfied that it fixes your concerns around the bill, that your industry is satisfied with the bill now. Is that a fair interpretation?

Mr Rainforth: We're basically endorsing the bill, as amended.

Mr Phillips: Bill 149? That's fine. I was among those who were very concerned when the original bill came out that it was, let's say, badly done. This is one of the things it has fixed up. I don't have any questions. I congratulate your industry in helping to patch the thing up.

The Acting Chair: Mr Rainforth, do you have anything to add? You still have a few minutes left.

Mr Rainforth: I have a response to the parliamentary assistant and his reference to bringing samples. For the last five or six years our organization has hosted a wine tasting in the restaurant down in the basement. I want to assure you that we will be doing that again this year. You will obviously get notices of it. We look forward to seeing each and every one of you out. We have used this opportunity to help select the wine of Ontario, both red and white, for the last six years now. We look forward to doing it again this year.

The Acting Chair: We appreciate that. Thank you for your comments today.

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INDEPENDENT POWER PRODUCERS' SOCIETY OF ONTARIO

The Acting Chair: We're a little bit ahead of schedule, so we're going to see whether the Independent Power Producers' Society of Ontario has its representatives here. Okay. Gentlemen, if you'd like to come forward, please, and introduce yourselves.

Mr David Kerr: My name is David Kerr. I'm a principal with the Algonquin Power Corp. We're a small hydro developer based in Toronto. We own and operate 22 hydro-electric projects, with nine facilities located here in Ontario.

Mr Bud Carruthers: I'm Bud Carruthers, vice-president and treasurer of Great Lakes Power Ltd from Sault Ste Marie. We are probably the largest independent power producer in Ontario, with 12 hydro-electric plants in the Sault Ste Marie-Wawa area, and interest in a gas-fired cogen plant in Sault Ste Marie.

Mr Harry Goldgut: I'm Harry Goldgut, vice-president, planning, of Great Lakes Power Inc, which is the parent company of Great Lakes Power Ltd.

Mr Kerr: We've prepared a submission for the committee. I propose to use this as an outline for discussion today. This presentation is being made by the Independent Power Producers' Society of Ontario, or IPPSO, as we like to call ourselves.

The membership of IPPSO covers a broad spectrum of energy producers, service suppliers, financiers and interested professionals. The membership, as represented by the private hydro-electric power producers, appreciate the opportunity to appear before the standing committee on finance and economic affairs and make submissions in respect of the Fair Municipal Finance Act.

Who are we? Hydro-electric generating stations are capital-intensive projects which require long-term financing. We actually finance our projects up to 35 years. During this period, the net operating income received by the developer is very small compared to the capital investment. That's due to the high leverage nature of our projects. Property taxes are the most significant element of all expenses, after debt repayment. Any increase in property taxes has a significant impact on the profitability and long-term viability of an independent hydro-electric generating station.

This brings us to what the problem is. In the early 1990s, the assessment division of the Ministry of Revenue changed the method of valuing private hydro-electric generating stations for assessment purposes. This resulted in a significant increase in taxes paid by private utilities.

Those private utilities which have negotiated long-term fixed-price contracts with Ontario Hydro have seen drastic reductions in the real market value of our facilities. This change to a new valuation method on private utilities has had a significant adverse impact on an already very thin cash flow. For private utilities, which distribute power directly to the consumers and can seek annual adjustments to their rates, such as Great Lakes Power, the change meant an increase in the actual rates charged to industrial, commercial and residential consumers.

The increase in property taxes paid was the major contributing factor to the elimination of any new investment in private hydro-electric generating stations and the reduction in value and significant losses faced by many managers of existing private utilities. In fact, we stopped developing a few projects in Ontario only because of the burden of municipal taxes.

Mr Carruthers: I'd just like to add that Great Lakes Power is in the same boat. We have several new projects we could build or some older facilities we would rehabilitate, but we are concerned about the municipal tax level we are paying, as well as the large water power rental charges, in light of today's competitive environment.

Mr Kerr: However, in Ontario the largest producer of hydro-electricity is Ontario Hydro. Ontario Hydro's assessment is determined according to section 52 of the Power Corporation Act. Ontario Hydro is not treated like a private business or citizen. The municipal tax levied on private hydro-electric power producers such as ourselves is substantially higher than the grants in lieu paid by Ontario Hydro to local municipalities.

All private utilities are assessed pursuant to the provisions of the Assessment Act by the Ministry of Finance's regional assessment commissioners. The Ontario government and Ministry of Finance have prescribed by policy direction the manner in which market value for private hydro-electric generating stations is determined.

In determining the value for assessment purposes, the ministry's assessor considers such factors as the royalties paid to the government for water power rights and the installed capacity of the generating station.

On the other hand, Ontario Hydro is exempted from the provisions of the Assessment Act by virtue of section 52(l) of the Power Corporation Act. Ontario Hydro makes payments of grants in lieu of property taxes to municipalities in which it is situated. These grants are set at the rate of $86.11 per square metre of floor area of the generating station where the machinery and equipment are located.

The alternative assessment methodologies for Ontario Hydro and private utilities result in a radical difference between the municipal taxes levied on private utilities and the grants in lieu paid by Ontario Hydro.

By way of example, a review of five generating stations owned and operated by Ontario Hydro indicate that estimated grants in lieu paid by Ontario Hydro under the Power Corporation Act were $508,000 in 1994. If you look at tab A in our submission, we did a calculation of the grants in lieu that Ontario Hydro paid for five existing facilities in 1994. If Ontario Hydro paid taxes the same way as private utilities, that number would be $25.3 million. That's illustrated in the second-to-last column under tab A.

Conversely, for a seven-year period from 1990 to 1996, one of our members paid a total of $48.366 million in realty and business taxes to the local school boards and municipalities where it is situated. If this producer had been assessed pursuant to section 52(3) of the Power Corporation Act, the same way Ontario Hydro is assessed, then it would have paid a total of $1,227,300 in grants during the same period. That calculation is shown in tab B of our submission.

This disparity in treatment is demonstrated by way of another example. The 10.5-megawatt Healey Falls generating station on the Trent-Severn waterway is owned by Ontario Hydro and pays grants in lieu in the amount of $13,571, one tenth of the taxes paid by another member, which happens to be Algonquin Power. We're assessed at $125,000 per year for municipal taxes for a four-megawatt project. This is about 25 times greater than what Ontario Hydro pays in grants in lieu.

In the rest of the world outside Ontario, huge systemic changes are taking place in electricity markets. Electricity is bought and sold in a continental energy market and the walls between jurisdictions which permitted monopolistic rate-making are tumbling. Those producers who will survive in the continental energy market are those who can compete internationally. A significant geographic variation in property tax burdens can create winners and losers in the continental energy market.

The present level of municipal taxes in Ontario is a barrier to economic development and unfair to the private sector in the province. Deregulation will occur in Ontario, either in the distant or near future. Like Ontario Hydro, private producers are looking to the United States as a market for generated electricity. Ontario Hydro has announced that it is preparing for deregulation and intends to compete with all power generators. Unfortunately, due to the unfair municipal tax burden, we cannot compete with a tax-free Ontario Hydro.

For your information, we've enclosed in our package a copy of a request for proposal from Ontario Hydro, which was issued last week, for new power. In there you'll see that they're looking for power from private generators inside the province and outside the province, and any other form of generators outside the province. So we are now competing with generators in the US and in Quebec on a head-to-head basis.

As the government moves towards deregulation and the possible privatization of Ontario Hydro, the burden of taxation on hydro-electric generating stations must be equalized because: (a) private utilities in Ontario and elsewhere in the North American market do not have the benefit of a virtual property tax exemption as does Ontario

Hydro, and so are forced to compete unfairly with the subsidized Ontario Hydro; (b) Ontario Hydro facilities could not support the burden of taxation paid by private utilities, and thus a rational taxation policy must be developed; (c) the current burden of taxation on private utilities results in tax levels which are significantly higher than those faced by competitors in many parts of the North American energy market which, if applied to Ontario Hydro properties, would render the privatized plants uncompetitive in the North American market.

What is a rational tax policy? We do not support imposing tax burdens on Ontario Hydro similar to those that are presently imposed on private power producers, nor do we ask for a virtual exemption from taxation such as that enjoyed by Ontario Hydro today. We propose that the province of Ontario set a uniform provincial rate of taxation on all private hydro-electric power producers equivalent to 3% of gross revenues derived from the sale of electricity produced by the taxpayer.

This solution has several advantages: First, it establishes equity between private utilities and Ontario Hydro. Second, it is consistent with the tax treatment of utilities in Quebec, and thus establishes equity with a significant competitor in the continental marketplace. Third, it adjusts downward the burden of taxation on private utilities to a level which results in economic viability.

How can this be accomplished? Section 7(l) of Bill 106 provides the Minister of Finance with the authority to "prescribe classes of real property for the purposes of this act." The ministry has already issued draft regulations under the Assessment Act referring to the classification of real property. We included in tab C parts of that draft regulation.

The industrial property class is deemed under section 5(2) to include "land used to produce or transform electricity." We are proposing that the Minister of Finance use his authority created under Bill 106 to create a new, additional class of real property in Bill 149 to be known as the "private utility property class." This class would be defined to include "land used to produce or transform hydro-electricity."

The creation of such a class is consistent with other provisions in the Assessment Act for the assessment and valuation of public utilities, such as section 27 of the Assessment Act, which interestingly enough are to be assessed as if they were in the commercial property class.

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This technical solution would allow the province of Ontario to establish a tax rate for all properties within the private utility property class based upon 3% of the gross revenue derived by the private utility from the sale of hydro-electric energy produced by the utility at that particular location. The result would permit private utilities to compete in the continental energy market and put Ontario Hydro on a level playing field with the private sector.

The Acting Chair: Thank you very much, sir, for your presentation. We have approximately six minutes for each caucus, starting with the Conservative caucus.

Mr Grimmett: I wonder if you could perhaps comment on how the elimination of the business occupancy tax might affect your industry.

Mr Carruthers: We understand that the real property tax will go up to compensate for it, so at the end of the day we don't anticipate any decrease in taxes.

Mr Grimmett: How did you feel about the business occupancy tax?

Mr Carruthers: Great Lakes Power has had an appeal in to the Minister of Revenue since 1989. We're going into our ninth year of fighting a tax appeal. The current rate of business tax is one of the main issues under that. The difficulty with the business tax as it is written is that there are different percentages for different types of businesses, and there didn't appear to be any logical rationale for that. That's one of the issues of our appeal, whether we're at a 60% rate or a 30% rate, which we won at the Assessment Review Board and lost at the Ontario Municipal Board, and now we're proceeding to the Divisional Court.

Mr Grimmett: You did have one of the higher rates.

Mr Carruthers: We did have a higher rate, of 60%. Eliminating the business tax is fine. Then you get into fighting what's proper property evaluation. Our proposal in here, the 3%, would eliminate a lot of work for the lawyers and assessors because it's very difficult — you really can't assess hydro-electric plants like a building in downtown Toronto. Each hydro-electric plant is site-specific to the location. It might have a bigger dam, a different size of powerhouse, pen stocks. They're all really site-specific. You really can't come up with a standard formula to apply to a hydro-electric plant. This is one of the things in our appeal, that when we eventually get into the property valuation, we will be going into a detailed appeal on each of our 12 plants, because there's no way we can do it on a common basis.

Mr Grimmett: Your suggestion of a 3% tax on gross revenues, you indicate that's the situation in Quebec. Is that correct?

Mr Carruthers: Yes.

Mr Grimmett: What about other jurisdictions? What about Manitoba and the bordering states? What are their approaches?

Mr Carruthers: In Manitoba, as we understand it, it's all Manitoba Hydro government agency and they pay practically no tax.

Mr Grimmett: Do you know about the American jurisdictions, how they're taxed?

Mr Kerr: Yes, we have seven facilities in upstate New York. It's a little different in New York, where you can go to a municipality and make an agreement with the municipality on tax assessment. You can make an agreement to pay a grant or payment in lieu of taxes. The taxes are assessed on a market value, which is based on revenue of the plant. They do an actual value assessment of the plant, how much revenue it makes, then municipal tax is based on that.

In Ontario it's based on a formula that was devised by the assessment division, that puts value on the dam, the

amount of concrete you have, the land you're sitting on, it gives you value based on the water rental rate. It's a complex formula. It doesn't have anything to do with what type of revenue the plant makes.

Mr Grimmett: What would the impact on provincial revenue be of your suggested proposal?

Mr Kerr: It's very little on our side, because in the aggregate we're not a big taxpayer. But it would be a windfall if Ontario Hydro started paying 3% of municipal taxes, because they pay next to nothing in their grants in lieu of taxes.

Mr Grimmett: You're suggesting that this special property class would also apply to Hydro.

Mr Kerr: We're proposing that, yes.

Mr Grimmett: What would be the impact on your industry?

Mr Kerr: Right now the impact on our industry is significant by the taxes we pay. Our projects are so highly leveraged that our free capital —

Mr Grimmett: I'm talking about the potential impact on your industry of the proposed method.

Mr Kerr: It would save our industry. Our industry is in trouble.

Mr Grimmett: What would be the impact financially, though? You've got the figures here.

Mr Kerr: We would pay about a third of the tax we're paying now if we were assessed at the current assessment rate.

The Chair: Mr Phillips, you have about six minutes.

Mr Phillips: I want to try and follow up on that. Roughly speaking, what does your industry pay currently in total realty and business occupancy tax?

Mr Carruthers: I would estimate about $12 million.

Mr Phillips: A year?

Mr Carruthers: Yes.

Mr Phillips: Because the one example you used here said one of your members has paid $48 million in seven years —

Mr Carruthers: That's Great Lakes Power.

Mr Phillips: So you must be the bulk of the industry, then. You're over half of the industry.

Mr Carruthers: Yes.

Mr Phillips: So $12 million a year in property taxes. You're paying business occupancy tax at the rate of 60%, are you?

Mr Carruthers: Correct. That's included in that number.

Mr Phillips: And it's going to drop to 40%, so you'll pick up maybe a couple of million dollars there in reduced taxes. If realty taxes will go up, we're told, by about 40% instead of 60% — that's our understanding. That's the one piece of good news, I gather, in the legislation.

Mr Carruthers: Our legal advice is saying, "Don't anticipate any changes in taxes." That's good news if that's what it's going to be.

Mr Phillips: If you're paying 60% and it's going to drop to 40% — you can just work it all out. I think it's somewhere around $2 million. Then your proposal here is that all the industries — I think what confused some of us, maybe Mr Grimmett and myself, was that your proposal was that the private utilities be charged 3%. You define Hydro as a private utility. Is that right?

Mr Carruthers: Correct.

Mr Phillips: So that's where you get the 3%.

Mr Kerr: In deregulation we will be competing head to head with Ontario Hydro. We see the inequity in that we pay such a high burden of municipal taxes when Ontario Hydro by the Power Corporation Act doesn't pay.

Mr Phillips: If Hydro were to pay at the rate you're paying, have you any idea what they would be —

Mr Kerr: It would be astronomical.

Mr Phillips: Roughly.

Mr Carruthers: I would think on their hydro-electric plants it would probably be about $120 million — oh, at the rate we're paying?

Mr Phillips: Yes.

Mr Carruthers: No, that would be $350 million.

Mr Phillips: You raise a very interesting point, because we are passing a law now, if we pass the law, where the government — if they privatize hydro production, they have to be in the industrial class by law. If they're industrial class by law, they have to be assessed at the industrial rate by law. That would mean a $350-million property tax charge, which presumably takes the value of those things down by $3 billion. Is that right?

Mr Carruthers: Yes, at least 10 times.

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Mr Phillips: It lops $3.5 billion off the value of it, which is dramatic. You've focused my mind, at least, and perhaps the committee's mind, on a fascinating issue and on your proposal, I think I also understand, which is to set up a separate class of real property, establish a —

Mr Carruthers: Similar to the pipelines.

Mr Phillips: Again I ask the question: Right now, if we were to do that, you believe your tax payable might drop from $12 million to $4 million or $5 million? Ontario Hydro would go up a similar amount, do you think?

Mr Carruthers: I'm estimating, on a hydro-electric plant, about $120 million.

Mr Phillips: If you make it revenue-neutral, in other words, that the industry pays no more property taxes, you take the 3% down to 2% or something like that.

Mr Carruthers: We're not suggesting that.

Mr Phillips: Frankly, you've raised a huge issue, that the law we will pass, Bill 149, would not permit the government, I don't think, unless there is another provision in here that the minister can do whatever he wants anyway — as I understand the law, it would require putting it into industrial property, and further back here you give us the regulation that defines industrial property as land used to produce or transform electricity, right? That's industrial property.

If it's privatized — in other words, no longer part of the Power Corporation Act — they would be required to pay taxes at the same rate you pay, which is $350 million a year. That changes the value of Ontario Hydro in a quantum way. You've given us the problem and your proposed solution. I now understand a lot better and I can

see it's timely that you're here because, as you point out, Ontario Hydro is going to market to buy the stuff you produce from people who don't pay the same tax rate you do. Ontario producers are disadvantaged in competing with their own state protection, if you will, in some respects.

Mr Carruthers: That's absolutely correct. It's the hydro-electric plants that are getting hit with the taxation. A gas-fired co-gen pays practically no municipal tax at all. It's less than one mill, whereas the hydro-electric plants, between our municipal taxes and our water power charges, are paying almost one cent. One of our large customers has recently been approached by a large American utility to sell power into Sault Ste Marie at about three cents Canadian, just over two cents US. We can't compete with the pricing that is coming out there. In fact, our company has recently purchased plants in Quebec and we're looking at building new hydro-electric facilities in the province of Quebec because the tax rate is much lower.

Ms Frances Lankin (Beaches-Woodbine): You just started to touch on the issue I wanted to ask you about: the treatment of co-gen and NUGs. As we enter a period of time where those are becoming in fashion again, what will the impact be? I just wanted to ask a quick question of clarification when you were answering Mr Phillips's questions.

The proposal you have for 3% would effectively cost Ontario Hydro $120 million and some odd if they were to be brought on par with what you pay now, and that was your figure of $300 million and some odd. If they were to be privatized without any change in this legislation affecting the private sector regime, effectively that's a piece of the bill that people have to consider when they look at the economic viability of all this. Could you explain a little bit more to me the issue with respect to co-gens and NUGs?

Mr Carruthers: Under the Assessment Act, the machinery and equipment are exempt from municipal assessment. Basically, a co-gen plant is 95% machinery and equipment. That's where they get all the exemptions. We have an interest in a co-gen plant in Sault Ste Marie. We're paying $160,000 municipal tax on that plant, which produces twice as much power. It's 110-megawatt plant. We also have a hydro-electric plant in Sault Ste Marie that produces 50 megawatts, less than half, and would pay over $2.2 million in municipal taxes. The co-gen produces twice as much generation. We're really being penalized. It's not only the property tax, we are also paying water power rentals to the Ministry of Natural Resources.

Mr Pouliot: On page 5 of your presentation you say, "Unfortunately, due to the unfair municipal tax burden, we cannot compete with the tax-free Ontario Hydro." You did emphasize in your presentation a focus on the competition aspect. Yet I turn to your page 6 and you just as readily acquiesce that there is a difference between your entity and that of the public sector of Ontario Hydro, that they cannot be treated identically.

I take it from your presentation that your mandate is not necessarily to compete with Ontario Hydro but to complement Ontario Hydro. With respect, I'll put it to you this way: We know on the other side of the ledger the liabilities, the obligations. Ontario Hydro at the present time — it's not a secret to anyone, fully backed by the broad shoulders of the province, is indebted for $29 billion. It also faces a further liability of some $2.9 billion, which is all of our CPP. That fact is not as well known. Plus what looms large indeed is an additional, let's say, $10 billion in the next three to four years to fix the mess, the challenge of nuclear plants.

This will bring their debt to in excess of $40 billion. They're in the nuclear business plan. You tacitly recognize this and you come up with a proposal for which you are to be commended. It's a refreshing proposal. You say 3% of gross revenue, but let me put that in true perspective. Do you believe that your property taxes are about to increase?

Mr Kerr: The property taxes have increased with the new method of assessment. I'll do it by example. We have a project near Kapuskasing that has just been amalgamated by the town of Fauquier. The property taxes, because they became part of municipal taxes — we were paying Ontario land taxes — went from $10,000 to $310,000. The concern is, the projects were developed on the basis of a tax payment of a certain amount. When the taxes jump up that much, that project does not make any money. It can't handle its own debt servicing any more.

Mr Pouliot: I understand, but your proposal of 3% of gross revenue, would that not in effect decrease the taxes you pay?

Mr Kerr: Yes. In that situation I just gave you we'd probably pay about $120,000 a year in taxes, which we think is fair and equitable with what Ontario Hydro pays and what Quebec pays. The 3% we're proposing we pay is the same as Hydro-Quebec and the private producers pay the same amount of municipal tax, which is 3%.

The Chair: The time has expired. Thank you very much for your presentation and for coming here today as well.

Is the representative here from Buddies in Bad Times Theatre? They are actually scheduled for 4:30, but because we went ahead a little bit today, we've called them and they're probably going to be able to come a little bit earlier. I'd like to recess until 4:15 please.

The committee recessed from 1550 to 1630.

BUDDIES IN BAD TIMES THEATRE

The Chair: Our last presenter for the day is a representative from Buddies in Bad Times Theatre from Toronto. Are you Gwen Bartleman? Yes. Great. Gwen is the general manager. Why don't you just go right ahead.

Ms Gwen Bartleman: Thank you for the opportunity to speak with you this afternoon regarding Bill 149. A little bit of background, to begin.

Buddies in Bad Times Theatre is a not-for-profit, registered charity dedicated to the production of live theatre.

Established in 1979, Buddies began its life as a nomadic theatre company, renting various performance spaces throughout Toronto in which to put on productions. In 1990, Buddies instigated and was part of a consortium called the Edge, which comprised several theatre companies. This consortium was formed to put in a bid as tenant-operator for the city-owned facility at 12 Alexander Street, the former home of Toronto Workshop Productions. The Edge was short-listed and the bid unsuccessful.

A group of independent producers were given the go-ahead to secure financing for their project. The city stipulated that should this financing not materialize within a year, the group would lose the opportunity to act as tenant-operator of 12 Alexander Street. As it happened, they did not secure the financing and Buddies became successful in its follow-up bid to act as tenant-operator for the facility.

Buddies formed a partnership with the Alexander Street Theatre Project and Buddies personnel went on to secure funding from municipal, provincial and federal governments as well as private sources. In March 1993, Buddies signed a 40-year lease with the city of Toronto to act as tenant-operator of the facility.

From 1967 to 1988 the 12 Alexander Street location had been home to George Luscombe's Toronto Workshop Productions. In 1988, TWP closed its doors permanently. When Buddies began renovations in April 1994, the building was in a state of serious deterioration. Buddies, with a great deal of determination and tenacity, hired architects, oversaw renovations; in short, spearheaded the project. In October 1994, 12 Alexander Street opened its doors once again.

There were many surprises that Buddies faced upon moving into the building. Government grants to arts organizations were frozen and in some cases reduced, so that expected increases in grants were not forthcoming. Most important, property taxes for the building, which were originally estimated at $17,000, were reassessed at $44,000. Because of these unexpected costs, Buddies's resources were limited. Although there was an Alexander Street Theatre Project on paper, the reality of the situation was that Buddies board and staff were doing the lion's share of the actual management and operation of the facility, as well as programming and producing 13 weeks of theatre each year. This continues to be the reality of our current situation.

Buddies's total government grants for the 1997-98 season total $216,000. The $44,000 annual property tax amount is equal to roughly 25% of our usual annual operating budget from government sources. With this money Buddies produces 13 weeks of theatre per year as well as acting as the operator for the facility.

Beyond the financing from government sources, there is a licensed cabaret space which also hosts plays, book launches, dance nights and fund-raisers. The main theatre, called the Chamber, is available for rentals throughout the year. The capacity of the cabaret is 100. The capacity of the Chamber is 300.

Originally, the obligations of Alexander Street Theatre Project in regard to the facility were scheduled to terminate upon completion of the building renovations. However, on January 31, 1995, a lease-amending agreement was signed and Buddies and the Alexander project became jointly and severally liable as tenants-operators of 12 Alexander Street. In short, Buddies and the Alexander project are inextricably linked.

Over the past four years there was a tremendous amount of muddled information regarding the different duties of Buddies and the Alexander Street Theatre Project. Most recently, the senior staff management and board of directors of Buddies have taken the initiative to further separate the organizations so that the Alexander Street Theatre Project is directly responsible for the cost of the facility and Buddies in Bad Times is directly responsible for the costs of the theatre that Buddies specifically produces. As lovely as this separation may appear, it remains that Buddies in Bad Times staff members are running the facility. With the high overhead of the building costs, such as the property tax and staffing costs, there is simply not the essential revenue to hire separate management for the facility.

Buddies in Bad Times's profile as a theatre company has most certainly grown in the past four years. The level of activity at 12 Alexander Street is unparalleled in the Toronto theatre community. Currently, the facility employs nine full-time and six part-time employees, as well as dozens of artists, technicians and designers.

Buddies in Bad Times at 12 Alexander Street has very quickly become an asset to many communities. Being nestled in the heart of the gay and lesbian community, much of our programming addresses that segment of the population, but there is so much more in the tradition of Buddies that was brought to Alexander Street, and there has been so much tradition formed already in the four years we've been in the building.

Buddies happily and appreciatively runs the facility. We are overjoyed to have such a home, but it should never be forgotten that it was Buddies who made the successful reopening of the city's facility a reality, and it should never be forgotten that ultimately we are a grass-roots, small organization creating important art in the face of economic adversity.

I urge you to support Bill 149. Exemption from property taxes will mean we can support more artists, create more art, host more community events and provide more cultural opportunities for patrons to enjoy. The artists need the facility, the businesses surrounding Buddies in Bad Times Theatre need this facility, our patrons need this facility, and ultimately the city needs Buddies to continue to manage this facility. We run the building gladly, but an exemption from property tax will give us a much-needed break in this climate that is a challenge for all not-for-profit, city-owned cultural facilities.

Thank you. I'll answer any questions.

The Chair: Thank you very much for your presentation. We have about 24 minutes, so it would mean eight minutes per caucus if you want to take eight minutes.

Mr Phillips: I'm familiar with the organization. You do very good work. I gather your organization has examined the bill and you're satisfied with the bill.

Ms Bartleman: Yes.

Mr Phillips: That's all I need to know. I think there is broad support for the community on the property tax exemption. As I said, your organization clearly has looked at it carefully. I don't think your organization needs to worry. The bill will pass. Probably within four or five weeks, I would speculate, we'll be back in the Legislature.

Ms Bartleman: Have you heard a lot of speakers from city-owned theatrical facilities? Yes? Good. It's important to all of us.

Mr Phillips: Thank you.

Ms Bartleman: Thank you very much.

Mr Pouliot: Not so quick, madame.

Ms Bartleman: Je m'excuse.

Mr Pouliot: You're so articulate. You were reading so quickly. I tried to digest, to assimilate what you were saying. I got some, that without Bill 149 — you sort of see it as a saviour.

Ms Bartleman: It will definitely assist us in promoting arts in the city, yes.

Mr Pouliot: The Buddies in Bad Times would be Buddies in Rough Shape.

Ms Bartleman: It's not called "Bad Times" for nothing, sir.

Mr Pouliot: This is a direct saving of $44,000.

Ms Bartleman: That's correct.

Mr Pouliot: That's big-time money.

Ms Bartleman: Yes, sir, it is.

Mr Pouliot: You've mentioned that the grants have been reduced or frozen. Was I right with $296,000?

Ms Bartleman: It's $216,000.

Mr Pouliot: I'm sorry; that's even less. Your capacity is — explain to me.

Ms Bartleman: The capacity?

Mr Pouliot: Yes. You mentioned 100 and 300. I thought it would have been the other way around, that you had 100 there and 300 for the audience.

Ms Bartleman: We have two spaces. We have the cabaret space, which has a capacity of 100 people, and then we've got the larger theatre space, which has a capacity of 300 people. They're actually two facilities within this one building.

Mr Pouliot: If the members of the committee here — given their busy schedule, it is not highly likely — would take in the entertainment, how much would it cost them?

Ms Bartleman: Ticket prices range from pay-what-you-can — a typical Sunday matinée has a pay-what-you-can performance. It ranges from pay-what-you-can to about $20 to $25. We've found that for our patrons, $25 is really the maximum amount of money they can spend to see a production.

Mr Pouliot: You said you're operational about 13 weeks a year.

Ms Bartleman: Buddies in Bad Times produces 13 weeks a year, yes. The rest of the time it is available for rentals.

Mr Pouliot: Like my distinguished friend and colleague, I'll be brief. I'll conclude by saying that it's obvious you need help. I don't imagine that you are sponsored by American Express. I don't get any free air miles when I go and see your theatre repertoire.

Ms Bartleman: No, that's correct. You don't. That's true.

Mr Pouliot: So you like Bill 149. I'm not going to ask you if you like the government. This would be unfair because most of us, in your neighbourhood and in our neighbourhood do not like the government.

Ms Bartleman: Non-partisan. It's just another yard for me.

Mr Pouliot: You are to be commended, Gwen, because what you've said is, "Look, the people I represent benefit." It gives them a chance to live because of the $44,000, and I will not question you further as to what the commissar, what this group of people, the government of the day has in store for people like us ordinary people. That's all I have and hopefully there won't be any amendment to surprise you, because you never know. Good luck.

Ms Bartleman: Thank you.

Mr Doyle: Welcome to the committee. Just one question: I'm interested in the pay-as-you-can philosophy. What do people usually drop in when they —

Ms Bartleman: Standard is $5. Anywhere from $5 to $10.

Mr Doyle: I would imagine with that kind of philosophy that people probably dig a little deeper then.

Ms Bartleman: Sometimes.

Mr Doyle: They may be able to afford $4, but they'll put in $5.

Ms Bartleman: Yes, sometimes. Basically the pay-what-you-can performances cater to the artists themselves, other theatre artists in the city who may not be able to afford it otherwise. It's a tradition in Toronto at this point.

Mr Doyle: It's a nice philosophy. Thank you.

Mr Grimmett: You asked if we had presentations from other theatres, and earlier today we did. We had a presentation from the Professional Association of Canadian Theatres, Pat Bradley.

She made it quite clear that she felt this exemption that you're talking about was going to be of great benefit. You mentioned in your presentation that you thought you might be able to possibly extend — did you mean you would extend you season with this?

Ms Bartleman: No, but I think that we can offer more opportunities for different artists-designers. The 13 weeks is not necessarily comprised of actual productions. We also do things such as the Antechamber Series. We have six previously unproduced writers and they get a very little amount of money to see their production arrive into fruition. This kind of money would really go directly to the artists and we'd be able to have more programs like that.

Mr Grimmett: Do you see the opportunity to hire more people, then?

Ms Bartleman: Yes.

Mr Grimmett: How about the opportunity to reduce ticket prices? Do you think that's likely?

Ms Bartleman: That's a possibility as well. We definitely don't want to go beyond the $25 mark. We actually used to be less than $25, but we found it economically essential to increase our ticket prices.

Mr Grimmett: Are you considering changing your name, now that the bad times are over?

Ms Bartleman: "Buddies in Good Times" — I don't know. I think the times will always be a little bit bad for us, you know.

The Chair: Thank you very much for coming today. We appreciate your presentation.

The committee stands adjourned until tomorrow morning at 9 o'clock.

The committee adjourned at 1644.

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Published by the Legislative Assembly of Ontario

Service du Journal des débats
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Toronto ON M7A 1A2
Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 21 October 1997

Mardi 21 octobre 1997

The committee met at 0905 in committee room 1.

FAIR MUNICIPAL FINANCE ACT, 1997 (No. 2)

LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS (N^O 2)

Consideration of Bill 149, An Act to continue the reforms begun by the Fair Municipal Finance Act, 1997 and to make other amendments respecting the financing of local governments / Projet de loi 149, Loi continuant les réformes amorcées par la Loi de 1997 sur le financement équitable des municipalités et apportant d'autres modifications relativement au financement des administrations locales.

GEORGIAN BAY LAND TRUST

The Chair (Mr Terence H. Young): The standing committee on finance and economic affairs is now in session. I'd like to ask the representative from Georgian Bay Land Trust to come forward, please. Could you please identify yourself for the record. Then you'll have half an hour to use as you wish. Many delegations like to leave time for questions. If you do that, I will divide it evenly among the three parties present.

Mr Christopher Baines: Excellent. Thank you, Mr Chairman. My name is Christopher Baines. I am president of the Georgian Bay Land Trust, which is a charitable, registered non-profit dedicated to preserving and protecting unique environmental sites on the eastern shore of Georgian Bay. I might note that Bill Grimmett is our MPP for one section of that.

Just a little bit of background about our organization: We've been around since 1991. We have now approximately $1.25 million worth of land, some 400-plus acres, under protection under various mechanisms, both freehold ownership as well as conservation easements. Just for the committee's interest, I can pass along some pictures of one of our latest acquisitions, which cost us some $205,000. We now hold a $40,000 mortgage, which we have to deal with within two years. That's just a little background.

As I said, we're a charitable non-profit, dedicated to preserving and protecting unique sites. There are now in the United States some 1,200 land trusts, with the same purpose in mind. We have two options — actually three, but two that are used primarily to preserve and protect this land, the first being either purchase or donation of the land by land owners; the second, which was granted to us the year before last by the Ministry of Natural Resources, is the holding of conservation easements. It is for that reason that I'm here today to address the committee.

A conservation easement is, put quite bluntly, a prohibition against development. So if hypothetically a land owner had 100 acres of land and said, "I want to preserve and protect these 95 acres, which are environmentally significant," the way it would work is that the land owner may say: "The five acres I want to keep for my building and potential children in building lots to be severed, but the 95 acres I want preserved and protected in perpetuity. What can be done?" They can approach a land trust such as ourselves or the Nature Conservancy of Canada or they can approach their local conservation authority if there is one or, potentially, the Ontario Heritage Foundation, whatever. There are a number of different mechanisms to answer the question, "How can I best preserve this 95 acres?"

A conservation easement is a registered document on title that says, "In perpetuity, this land shall not be developed." So the 95 acres, essentially, that the individual wants to put an easement on would be taken out of the picture in regard to developability in perpetuity.

The problem that arises now is that although we are granted the right to hold conservation easements and although the land owner will receive a federal tax credit for the diminution in value, there is nothing currently in the Assessment Act which will acknowledge or recognize conservation easements. Consequently, for the owner who has taken the 95 acres out of development, if you will, in perpetuity, that fact is not acknowledged or addressed under the Assessment Act. They still pay or will pay full pop for the 100 acres. That's the problem.

We've just finished, unfortunately, after two years in negotiation with a land owner, a potential conservation easement and dropped it because he was not willing to proceed with us, primarily for the reason that he would enjoy no tax relief, because the current Assessment Act, Bill 106, does not acknowledge that. So we are here today to ask you, as an amendment, as you are doing in other elements of the Assessment Act, to rectify this wrong and to address what the Assessment Act lacks now, which is that conservation easements should be acknowledged within the Assessment Act.

I know that Bill 149 will be doing some fixes to oversights that occurred, including matters such as the theatres in Toronto, the power utility and railway lines, the international bridges and tunnels, and defining new subclasses for assessment purposes. We're hoping that within that we can include acknowledgement and recognition of conservation easements, because without that, quite frankly, we are in trouble, as are the other land trusts, prevented from actively using the mechanism of conservation easements. We were given it on one hand; what we need on the other is acknowledgement and recognition within the Assessment Act so that the land owner will get a lowered assessment, and therefore lower taxes, as a result of registering on title, as they do, in perpetuity, this restrictive covenant. It could be dealt with in Bill 149 under section 9, which adds new subsections to the Assessment Act, section 19.

I should point out for the committee what conservation easements are not. They do not allow us a right of possession. Indeed, in the one we've just discussed for the potential of conclusion but which did not happen, we were only allowed access on to the property two times. So a conservation easement does not include right of possession. Thus, they're not the equivalent of owning and using land.

The problem with Bill 106, quite frankly, as it is right now is that the properties are assessed as though they were unencumbered, because it states that, based on wording used for commercial renting in the definition of "current value."

Actually, policy advisers in the Ministry of Finance said that it will be accounted for in the policy, but this, according to our lawyers, would contravene the legislation and is of no comfort right now to donors or to easement-holding charities. The proposed regulations do not mention, actually, conservation easements.

If you'll look at other jurisdictions in North America, you will see that the new actual value assessment in BC actually does include this. Under the BC assessment act's subsection 26(35) it says that assessors are required to "give consideration to any terms or conditions contained in a (conservation) covenant." What we don't have now is that same sort of wording in the Assessment Act of Ontario, and that's what we need. Indeed, Bill 106 says, "'current value' means, in relation to land, the amount of money the fee simple, if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer."

The problem for us is that phrase "if unencumbered." If we can't get, as I stated, acknowledgement or recognition of the conservation easements within the Assessment Act, we effectively are dead in the water, prevented from implementing the wonderful tool that a conservation easement is.

Similar provisions to what I just mentioned in regard to BC are also found in Colorado, Missouri, Michigan, Minnesota and Maine. Indeed, over half the US states which have enacted conservation easement legislation have acknowledged the effect on their assessment act. Vermont has the best example of state, municipality or approved charity-owned easements, which are taxed "only upon the value of those remaining rights or interests" after an easement has been entered into.

Such a provision actually would include — and that's what we're asking for — all long-term conservation easements. Such a provision would allow assessors to determine whether values go up or down and whether they are large or small in nature. It allows the assessors to do their job.

I would point out, as a matter of interest, that some of our directors just returned from Savannah, Georgia, where the Land Trust Alliance in the United States just held their rally with some 1,400 land trusts there. Ted Turner was the guest speaker, the billion-dollar man. He has a ranch in Montana that's 283,000 acres that he put a conservation easement on; his Hollywood-star neighbours did the same. The effect of this is that the assessment for his ranch, and those of all his neighbours, has actually gone up as a result of putting a conservation easement, which prohibits development, on the land.

So quite frankly, this cuts both ways as far as assessors are talking. We're willing to take that risk — we should be so lucky as to be in that circumstance — but we need that acknowledged. This act allows the opportunity for the government and the Legislature to correct or right a wrong that occurred, first of all, in Bill 106, in the Assessment Act, and that's what we're asking.

A new subsection, subsection (55) in section 19, could be added to address this specific issue. This would be in order, given that other new subsections are being added to section 19 at this time.

So all I would like to do is to reiterate the need for recognition of conservation easements in the conservation-lands, managed-forest and current-value regulations. Those classes are acknowledged under current-value regulations, but what has been missing, as I said, is the acknowledgement or the recognition of conservation easements. The current-value regulations allow municipalities to opt into current-use valuation or designated natural and cultural heritage lands. If you want to maintain these properties in current use, then tax them accordingly.

I'd also like to address the issue of municipal tax rebates. Found in Bill 149 is section 47, which adds a new Municipal Act section, 442.1, I understand. The effect is to allow municipalities to give rebates to charities for tax relief. Now, subsection 2(1) allows rebates to be made only for commercial- or industrial-class properties. This statutory authorization should be extended to all classes of property, such as residential, agriculture or managed-forest classes.

As a case in point, in our own township, the township of Georgian Bay, there is a particular property which we've been very anxious about. They have a problem with capital gains tax. That's not this forum's property, but they have to pay some $650,000. To get that money — and it's the most environmentally significant property on Georgian Bay — at the present time they're faced with the challenge of probably having to develop and sell the second-largest development that will have ever occurred,

some 35 lots, to get the money to pay the feds. They did another subdivision, paying $47,000 into the township's park fund, a segregated fund. What we attempted to do was to see whether we could leverage those funds, which the same family paid in, to actually help us purchase the environmentally sensitive property. It will be a challenge to see if that can happen, because the legislation doesn't allow that.

This is the same sort of circumstance that we're asking here, that the municipal rebates program be opened up to allow the municipalities certain moral latitude so that in a circumstance such as this they would have the flexibility and the latitude to enter into this agreement, which is really, or could be, a win-win situation. I can provide further details of that as we go along.

This would allow municipalities to make decisions, since some may wish to support rebates to some charities — for example, in our township, land trusts — that help municipalities carry out their work and add value to the community. Some lands or owners may not qualify for agriculture or managed-forest rebates, but municipalities may still feel it's worthwhile to provide some rebate. I'd put it to you that we may be in that circumstance, as may be the township of The Archipelago and certain other municipalities. We're not saying necessarily that the municipalities would do this, but if you at least expand the latitude, they may have the opportunity to decide yes or no. Certainly as a registered, charitable non-profit, we would fall within the mandate of what certainly our township, the township of Georgian Bay, as with the township of The Archipelago, feels to be within their purview and contributing to the aims and objectives of the township. It would also be useful to help charities over tough times, given the tight environment for raising funds and the competition from casinos, which is another issue.

That, in a nutshell, is the issue we're after. Again, just to reiterate, it is an addendum to section 19 of Bill 106, the Assessment Act, to allow for the valuing of conservation easements, because if we do not get that, we're not going to be implementing very many of them; at least, I don't believe we will, because there are a lot of land owners out there who are basically saying: "Why should I encumber my land in perpetuity for all of my heirs and their heirs and they still have to pay the full assessed tax on that property, which is undevelopable. Am I crazy?" That's what they say to us. So what we are doing is imploring this Legislature to take a look at righting that wrong so that we can now offer them some redress in regard to that benefit for not only the community as a whole but also the environment.

0920

The Chair: Thank you very much for your presentation. We have approximately 15 minutes left. In the absence of the Liberal caucus, I'll start with the NDP caucus. Mr Pouliot, you have about five minutes.

Mr Gilles Pouliot (Lake Nipigon): Good morning, sir. It's a privilege indeed. A guardian of the land is the parliamentary assistant Mr Grimmett. I don't think you can find too many people who are more dedicated and committed to seeking equilibrium, a balance on any issue. I say this by way of observation and by way of a compliment as well.

With respect, I find your request most commonsensical, most reasonable. We differ in style in terms of analogy. I would have preferred that maybe Ted Turner — I was waiting for Bill Gates in terms of the possibility of appealing the assessment figure. You will find with our party, I'm sure, a lot of sympathy there as well.

I have some difficulties, and I need your help in a broadly summarized form. The meshing, the blend between your charitable non-profit and your purpose is explicitly exemplified in the brochure. If you move to a development stage — would you help me? — what kind of development are we talking about?

Mr Baines: I'm not sure. It's our intention to preserve and protect land from development. I indicated a specific example, which is to say — and this is an issue which involves capital gains — the best property, the most environmentally significant property in our area is threatened by a development where the land owners would have to sell it, basically, to raise the money to pay the capital gains. The land they would have to sell is the most environmentally significant land. MNR has been all over it, Parks Canada has been all over it, the Nature Conservancy; everybody knows this.

Mr Pouliot: So it's oblique, it's by ricochet that you could be more impacted, philosophically. If you are not the resident in a unit, you become subjected to capital gains.

Mr Baines: But that's not the issue here.

Mr Pouliot: No, I know.

Mr Baines: It's a federal issue, that we're working on with a federal MP as well. It's unfortunate, but that's just the way it is.

Mr Pouliot: It's two parallels and so on, but it really does not, with respect, apply —

Mr Baines: No, and I'm not saying it does.

Mr Pouliot: You're non-profit, I agree, not because it's done elsewhere, because you really have no means and it deters what you are trying to do. You're charitable, non-profit. I don't think the land trusts should be taxed. I wouldn't rely on the municipality; I don't know them. But if I may speculate, it could be, with this government, that the townships, in relatively short order, will be after every dollar they can get under the statutes. Not that they wish to impute with passion and vengeance; no, no, it's because the need will force them to look within their jurisdictional capacity at every possible assessment dollar.

Mr Baines: We don't question that. I might point out that in those cases where we own land freehold, we have indeed requested of the municipalities that the land be down-zoned as restrictive as is possible. What we do is, in the preamble of those sorts of requests to council, it's known and stated that it is a recognized public good that these lands will be held for the benefit of the whole community. Ipso facto the mill rate will go up; by zoning these lands down to natural state conservancy or so, it means the effective mill rate goes up for all the other owners. But that's put in the preamble. We have no problem with that,

and indeed it's a recognized public good. We don't have an issue with the municipalities requiring every dollar they can get.

What we're saying is that the Assessment Act should allow the assessor the right to say, "Conservation easement; therefore you will be assessed less than the land right next door that does not have an easement on it," because the easement is a prohibition in perpetuity against development. Even though the land owner still owns the land, even though the land owner still pays the taxes, the land owner is prohibited in perpetuity from developing that land upon which he gets an easement. It's that recognition by the assessor to say, "That 95 acres can't be built upon."

Mr Pouliot: I understand. It's a major variance, so the park is missing. The terminology, the definition of what you're doing there, could have been included. I thank you very kindly and I support your position.

The Chair: We'll go to the government caucus now.

Mr Bill Grimmett (Muskoka-Georgian Bay): Welcome, Mr Baines. I certainly have heard a fair bit of information about your organization, and I congratulate you for the work you do. I'm going to ask you a few legalistic-type observations.

First of all, the restrictive covenant that's placed on the property: That's a voluntary act by the owner of the property?

Mr Baines: Correct.

Mr Grimmett: How can it be in perpetuity? I thought there was a 40-year restriction under the statutes that affect land in Ontario.

Mr Baines: Actually, you're correct, but it is —

Mr Grimmett: It's meant to be in perpetuity.

Mr Baines: It's meant to be in perpetuity. I withdraw that. It's not in perpetuity. It is meant to be renewed. Certainly we promote ourselves as an organization that would want it to be in perpetuity. It depends on the agreements we have where.

Mr Grimmett: Okay. That's not that big an issue.

The 5% you talked about is %5 cash in lieu of parkland dedication in the Georgian Bay township?

Mr Baines: In the township of Georgian Bay? Yes.

Mr Grimmett: I don't think that can be used for that purpose. It has to be used for general parkland purposes in the township.

Mr Baines: That's correct. The only reason I stated that is that in regard to the municipal rebates, it's a parallel example, if you will, to say that if they had an opportunity or a mechanism, ie, through opening up the municipal tax rebates, there may be another way they could assist us.

Mr Grimmett: Have you talked to the regional assessment office about the issue of possibly reducing the value if the easement has an impact on the actual sale value?

Mr Baines: Not to the regional office, no.

Mr Grimmett: They should be taking that into account in valuing the property, shouldn't they?

Mr Baines: The problem right now is that they should be, but we're negotiating easements now, and basically the land owners and their lawyers are saying there's nothing in the legislation that assures them that the assessor will take a look at this and that there'll be any redress whatsoever. You may have assurances that it may be in policy and they will take a look at it etc, but a lot of the lawyers are recommending to their clients, "Let's see it in writing," which is what we're attempting to get.

Mr Grimmett: Have you tried to get a ruling at the Assessment Review Board or at the Ontario Municipal Board that might assist you in this?

Mr Baines: No, because again our problem is that we have to get one so we could appeal it. Two of them that we've negotiated now have gone south, as I said.

Mr Grimmett: Are you aware that in Bill 106 there's an exemption for provincially significant wetlands?

Mr Baines: Yes.

Mr Grimmett: And these properties would not fit into that?

Mr Baines: No.

Mr Grimmett: There's nothing in the current legislation that might allow you to value these conservation lands on their current use?

Mr Baines: No, because under current use they are developable. That's the whole point. This land owner is saying that even if you value it and you do it currently and put the conservation easement on it — it's effectively saying on the 100 acres that 95 of the acres are developable. If the current use recognized conservation easements, effectively you'd say: five acres developable and therefore fully assessed; the 95 acres undevelopable, at least for the 40 years it's registered, as you indicated, and therefore they should be assessed as undevelopable.

0930

Mr Grimmett: Are you a solicitor?

Mr Baines: No.

Mr Grimmett: Okay. I hesitate to get into this issue because it is rather obscure, but section 9 of the Assessment Act reads, "Where an easement is appurtenant to any land, it shall be assessed in connection with and as part of the land at the added value it gives to the land as the dominant tenement, and the assessment of the land that, as the servient tenement, is subject to the easement shall be reduced accordingly."

This is not the kind of easement that creates a dominant and servient tenement. This is an easement over the whole land. Well, it's not a easement, actually; it's a restrictive covenant.

Mr Baines: Yes. The "industry," if you will, has had a terrible time with the terminology, whether it's a restrictive covenant or an easement, but you're quite correct; this is something new. As I said, we were just granted the land trusts, the right to issue conservation easements, in the last two years. It's out there trying to be used as a tool. The benefit for us is that we don't own the land and we don't pay the taxes. We have all the benefits of protecting the land and none of the liabilities. It's a great deal.

But what has been happening out there, not just with our own land trust but with others, is that when you get into the nitty-gritty of negotiating this, the land owners are

saying: "Well, hold on a second. I do all this and I'm still assessed for the full pop? What's going on here? What's in it for me or, more particularly, my children, who won't be able to develop the land and will still have to pay full taxes? According to what I see in the Assessment Act, there will be no acknowledgement of that."

Mr Grimmett: My time is up. I just want to assure you that I'll bring the issue to the ministry.

The Chair: Mr Phillips?

Mr Gerry Phillips (Scarborough-Agincourt): Thank you, I'm fine. I have no questions.

The Chair: Thank you very much for coming and presenting to us today, Mr Baines; a very interesting presentation.

CITY OF TORONTO, DEPARTMENT OF FINANCE

The Chair: Could the representatives from the city of Toronto department of finance please come forward? Thank you for coming today. You'll have half an hour to use as you deem appropriate. If you'd like to leave time for questions I'll divide it equally among the three parties.

Ms Audrey Birt: My name is Audrey Birt. I'm the director of revenue and tax collector for the city of Toronto. With me is Paul Wealleans, the manager of assessment services in my division. Basically, what we've come here to do today is to provide some input into some administrative concerns we have with Bill 149 and also some concerns we have around the way in which it's going to impact on certain groups of taxpayers, not only in the city but across the province. We feel that with a few amendments, some of those impacts can be reduced significantly.

I'd like to start the sections that refer to the treatment and calculation for the 1998 interim tax levy. The legislation requires us to calculate the 1998 tax levy using one of two methods. The first one is to calculate 50% of the previous year's taxes; in other words, 1997 taxes. However, what 1997 taxes include isn't defined other than to just indicate that it should also include the amount that was raised for business taxes on a commercial property.

In many cases in municipalities across the province this would be a simple task, but when you get into larger urban sectors where there are delays at either the Assessment Review Board or the OMB or even in the regular tax adjustments that occur because of vacancies, you can have a very distorted collector's roll for the 1997 year. In addition, you can have other charges that are deemed to be taxes added to the tax roll, everything from business improvement area levies to other charges deemed to be taxes. Without that definition, you can have different treatment for taxpayers across the province.

Of greater concern to us is the fact that even though it allows us to calculate the interim taxes, either based on 50% of the previous year's taxes or by applying a rate against the assessment that will be provided to us in November of this year, both methods require us to apply a 50% cap per property. What that means administratively is that although you may be able to find, hopefully, a very simple means by your system that will calculate an amount, it does mean you're going to have to go back in and review each and every account to ensure that you have not surpassed that 50% cap. As I said earlier, some of the changes or delays that can occur through no fault of the taxpayer or the tax office can indeed impact on those numbers.

Obviously, anything can be done with time and with computer systems. Regrettably, the method used for the 1998 interim is only for the one billing, so it would require us to change systems and apply a method that would only be used once and then thrown away, because 1999 and subsequent years are treated differently and don't appear to have that cap. It is certainly to be noted that the province has responded to the tax collectors' concerns over the years in providing this legislation to arrive at applying 50% of a commercial rate to commercial properties. This was always a problem in the past, where we could only apply the 50% of the residential public rate. Indeed it was a problem for commercial property owners, who could only collect that lower tax from tenants, only to have them move out partway through the year and be unable to collect that additional 15% for the first six months of the year when the final bill hit.

Regrettably, that 50% cap is indeed an administrative problem. I can assure you that I know of no tax collector in the province who is out to gouge the taxpayers. We want to be fair but we also want a system that is administratively simple, and we would ask that you remove that one component that appears to make it much more complex than it needs to be. There are certainly other ways in which it could be limited so that we would not exceed an amount sufficient to raise 50% of the previous year's taxes by arriving at that rate. That would be fine without the cap. It's the application of that cap that turns into a very difficult administrative process.

The other thing that's missing from that section is the treatment of determining the 1997 taxes for those properties where you have received a supplementary assessment for 1997 where it only covered a portion of the year. The bill allows for you to assume a 1997 tax for a property that was not taxed at all, but is silent on the treatment for those where you may have received a supplementary assessment for possibly three months or four months of 1997. It would seem inappropriate to only tax the 1998 interim based on 50% of that, or two months' taxes, when indeed the person is going the be taxed for a full 12 months in 1998.

The whole philosophy is to recognize that the interim tax is meant to be a deposit towards the 1998 taxes. For the most part, it is meant to reflect approximately five or six months of the taxes until both the roll and the budget estimates are passed and the final tax bills can be sent out to ratepayers.

Another area I wanted to cover was the tax relief for commercial and industrial vacancies. Unlike BC, where there is no such relief — they capture the status of the property once a year and that is the status it remains at for the full year; it's either vacant or it's occupied — the

province has chosen to introduce a bill that provides relief for vacancies. I recognize that this is a concern for commercial property owners. However, the treatment in the legislation appears to be one-sided. It allows for vacancies for unoccupied space, but it does not allow the municipality to obtain offsetting revenue for space that becomes occupied during the year.

0940

Of course both of those treatments require a significant amount of administrative monitoring, and that will certainly eat into a lot of the benefits we saw from the elimination of the business occupancy tax and the associated assessment monitoring that went with tenancy movements. However, to only provide tax relief for vacancies and not provide the offsetting revenue may mean that we will be faced with some difficult budget impacts. We would request that section 5 of Bill 149 be amended to provide for a supplementary assessment for occupancy during the year for space that was previously vacant.

The next area I would like to cover is the commercial property class, the area of graduated tax rates. As you know, the legislation provides for the council of a municipality to establish two or three bands of the assessment or property for the purposes of facilitating graduated tax rates for the commercial property class. Having been involved in some of the discussions about the impacts on small retail in the city and across the province, it was definitely identified that there was a need to find a means to provide some relief to small business. They are certainly great job creators, and everything must be seen to be assisting them with this reassessment so that they are not harmed.

The difficulty with the three bands is that although it may help the street retail, where you have a single commercial unit and a residential above and where the full value of the property may not be more than $250,000 or $300,000 — it will be very simple to apply a rate to the value of, let's say, the first $100,000. Where it becomes more difficult is when you have small businesses that are in concourses, large food courts etc in some of the big towers, where suddenly the concourse value might be, at minimum, in the millions of dollars.

To be able to apply a value across the whole class for graduated rate increases, it would have to be very high in order to protect these small businesses. We are recommending an alternative — and it may be appropriate to allow either method to be at the option of the municipality — that rather than the bands being based on a value, they be based on a percentage of value. In that case, for example, you may be able to arrive at the first 10% or 15% of value of a building that might more properly reflect some relief for the application of a lower rate for tax relief for small business. We would certainly ask that you consider that, please.

That same section appears to allow the Minister of Finance to make the regulations to permit the graduated tax rates. Because the legislation goes on to say that the Minister of Finance also is to specify the rates, it's unclear whether there is any municipal autonomy there, whether once the municipal council decides to use the tax tool provided to it, it will have the flexibility to determine the rates, or whether it has to seek permission and approval from the Minister of Finance before it can be implemented. We would really appreciate having that clarified.

The next area I'd like to cover is the phase-in program. The phase-in program, as you know, provides for the phase-in of the reassessment impact to be carried over a period of no more than eight years — it must start in 1998 and it must end in the year 2005 — and the first year of the eight years must reflect one eighth of the increase or more. The problem with that for 1998 is that we will not have our assessment information and therefore will not be able to implement the first year of the phase-in program in 1998 until the final billing in 1998. That means that the property owners out there getting increases will get a 12-month impact of the first year of the phase-in in year one. It would seem that even if everything else remains revenue-neutral, that will still result in a very significant shift to those property owners who are getting an increase and certainly would not be a good start to any reassessment program.

The proposal that is being made here is that one of two changes be made to the legislation, that either, because of the late return of the roll, you provide an amendment to the act which would allow the municipalities to carry their eight 12-month periods of phase-in into the spring of the year 2006 or that you allow the 1998 year to be pro rated so that it can only reflect a six-month impact of the increases with the balance to be made up over the other seven and a half years. Either way, I think you would find that it would be much more palatable to the taxpayers and less of a negative impact on them.

Taxpayers out there, we assume, especially in the Metro area, are going to be facing very significant tax shifts and tax changes as a result of the reassessment. There are going to be commercial property owners who are also going to be faced with other strains on their cash flow. A simple example, and one that I would certainly like to bring to the province's attention, is the impact of the additional GST that is going to be generated because of the elimination of the business occupancy tax. As you know, most tenants when they pay their rent pay GST on it, and therefore, most of them are able to claim it back, but financial institutions and a lot of the health industry and health professionals cannot claim the GST back. We have calculated that it's probably in the range of around a $30-million to $35-million windfall in non-refundable GST to the federal government. I just raise this as a point, because I would really hope that the province ensures that that $30 million to $35 million comes back into the province.

The other suggestion I wanted to make, also around the phase-in, was to allow us from 1999 onward to spread the impact of that one eighth of the increase over both the interim and the final bill, because again you will run into the same situation. You will consistently have a hit on the final bill that reflects the full-year impact of that phase-in. All we're asking is that the legislation be changed so that

we can add that one eighth at the beginning of the year and spread it out over all the instalments, again to ease the cash flow implications for the taxpaying tenant as well as the commercial property owner. There's a chart in the letter to the deputy minister that sets out the two scenarios and how it would work if those changes were made.

Finally, there are just a couple of other things that I thought should be brought to your attention. I know there has been a great deal of lobbying and discussion from TABIA regarding the business improvement areas. Business improvement areas are very strongly supported in the city of Toronto. We feel that they have certainly helped our communities continue to be vital and interesting and promoting a strong multicultural image, so we would certainly like to see them continue. However, there are some issues that really need to be addressed, and it's hoped that because the treatment of business taxes and elimination of business taxes set out in Bill 149 also has an impact on business improvement areas which are treated as a business tax component, that there will be the opportunity to amend the legislation to reflect some very strongly needed changes.

First of all, we are not going to be able to get the appropriate billing information to allow the BIAs in 1998 to pass their budgets until after the roll is returned under the current legislation. BIAs certainly need some money before then. I would like to recommend, because they are also in transition and impacted by the elimination of the BOT and the other changes impacted by both Bill 106 and Bill 149, that for the 1998 year only, that the members that were assessed for the 1997 BIA levies and the property owners who will be shown on the November roll that will be provided by the assessment office on November 30 be considered to be voting members of the board of management BIA for the purposes of approving the 1998 budget and the budget estimates for their BIA. This could even be restricted to those tenants with gross leases who volunteer in writing to their landlord to pay their fair share of the BIA levy, and if that is agreed to in writing, the tenant, on providing a copy of that letter to the board of management, would be able to have the voting rights in all matters relating to the BIA for the 1998 year.

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We recognize that the ultimate desire is to continue to support BIAs, but we do feel that 1998 is going to be a very critical year for them and that there could be a lot of pressure put on some of the owners to basically want to do away with them. I think we need to give them this year of transition to allow them to work as a team and see the true benefits of having a BIA in their community and how it adds value to the properties.

Lastly, the process for the assessment appeals: A couple of concerns have been raised by commercial tenants there about the future assessment appeal process, and it's twofold. Certainly the first one is the fact that a lot of these tenants are the ones who indeed initiate the assessment appeals. It's very important that they be allowed to obtain the appropriate relevant assessment information from the assessor in order to determine whether they wish to proceed with an appeal, and as you know, right now they will not be entitled to a notice other than that which must be provided to them through the owner. I think it will be important to ensure that the assessor is required to provide the same type of information regarding the basis on which they arrived at the value of the property to these tenants as they would be to the owner, as they are certainly impacted by the outcome.

The other concern relates more to the outstanding applications for 1997 and prior years. As you know, the legislation states that any appeals that are not dealt with by December 31, 1997, will move to the new assessment review process. There are certainly concerns that the expertise may not be in place early in the year to deal with some of these long-outstanding complex matters. Because of the fact that many of the delays were not caused necessarily by the applicants themselves but rather by the sheer volumes at the ARB and OMB, certainly it may be more appropriate to allow them to choose whether to have their 1997 and prior years' appeals still dealt with in the two-tiered process as opposed to the new process under just the Assessment Review Board.

Finally, one last comment is more or less a personal concern I have of my own, and that is the move of the province to remove the farm tax rebate from its current program and require it to suddenly be funded by the inhabitants of a local farm community. I have serious concerns about that, because I really don't feel that it is going to meet the government's objective to protect agricultural land, that indeed there will be additional pressure put on those local councils by the inhabitants to transfer farm land over to developers to increase the assessment base and reduce the tax burden. I would seriously ask the province to reconsider its position on this. The same as Toronto is considered the economic engine of the province, I think the farms are certainly the food basket of the province, and it may be that the tax relief is better funded through a province-wide tax such as the income tax base and not put on the backs of just the local ratepayers.

That's my presentation. At this point in time, I'd be very pleased to answer any questions you may have.

The Chair: Thank you very much. We have approximately two minutes per caucus, and we'll begin with the government caucus.

Mr Grimmett: Ms Birt, I want to congratulate you on an outstanding presentation in which you have certainly provided some very constructive advice. Because I'm not an expert in the field, I'm afraid I can't give you very good responses, but I will follow up with my own questions which will probably disclose my own ignorance.

You mentioned in your second point that the legislation permits municipalities to provide relief to properties where there has been a vacancy. I thought that currently municipalities could assess when previously vacant space became occupied during the tax year. Can you not do that now?

Ms Birt: We can do it now. That has been removed, other than to still allow us to pick up supplementary assessments for the 1997 tax year and 1996 tax year over

the next two years, but starting in 1998, there will be no supplementary assessment for occupancy. There will indeed always be supplementaries for new construction, for example, but not for tenancy movement.

Mr Grimmett: Is it your understanding that that's the intention of the ministry?

Ms Birt: Yes, because initially the intention was to mirror what occurs in BC, and there neither occurs. They take a snapshot once a year, and that's the snapshot that determines the tax treatment for the full year for that commercial property. There is no relief and there are no supplementaries.

Mr Grimmett: I also found your comment about the GST fascinating, because I wasn't aware of that before, but your point is that if you are a tenant currently in a commercial situation and you are paying business occupancy tax, there's no GST on that, because it's paid directly to the municipality?

Ms Birt: That's right.

Mr Grimmett: But if you pay it to your landlord, you will.

Ms Birt: Yes.

Mr Phillips: One of our problems is that we have no idea how this is going to impact on Ontario. We are being forced to approve a bill, and the government won't tell us what it's going to mean to the people of Ontario. We think that's grossly unfair, but they've got the power and they use it.

But you're in a position to at least give us some indication of what may happen in Toronto or Metro Toronto or the city of Toronto. Is it the expectation that the business occupancy tax will simply be added back on to the commercial-industrial realty tax — I realize that council hasn't made that decision — and if that is the case, what sort of increase are we looking at on the base realty tax on commercial-industrial?

Ms Birt: First let me indicate that for the 1998 interim, we are required to raise the 50% of the previous BOT from the commercial-industrial. We cannot spread it out across the other classes. That indeed in itself is going to be significant for commercial property owners.

The other piece, though — obviously, it's going to depend on an awful lot of the numbers, but some initial analysis we have done has shown that as a rule, across the Metro area and municipalities there will be a reduction for the financial sector, all of those that previously paid a 75% BA rate —

Mr Phillips: Banks and —

Ms Birt: Banks, insurance companies etc — and there will be an increase for retail, and I believe it averages out to about 140% to 145% where currently they would pay 130%, so let's say, for example, 100% of their commercial realty tax and an additional 30% in the business occupancy tax. When you eliminate the BOT and you have such a high level of 75%ers in an area like Toronto, that does cause a shift on to the 30% range, the retail sector basically.

Mr Phillips: So the banks are going from 75% to 40%.

Ms Birt: That's right. I just caution you to remember too that although the banks are certainly some of the major property owners in Toronto, they also have an awful lot of small tenants, so it is hoped that any relief that is provided to those buildings is also going to filter down to those businesses that are not financial in nature.

Mr Phillips: Yes, but the banks would go from 75% to 40% and the small business or the retail from 30% to 40%?

Ms Birt: That's right.

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Mr Phillips: I agree with your concern on small business. I think what the government is proposing is a tax break for owners of small buildings, not small business people, and it in some respects is replacing what was regarded as an antiquated, unfair system perhaps with another equally unfair system, which is that the landlord of a small building will benefit and the landlord of a larger building won't, but the businesses within it. As you point out, I can be the Second Cup in a freestanding building or I can be the Second Cup at the First Canadian Place and I get treated quite differently.

Ms Birt: Absolutely.

Mr Phillips: I think your proposal is intriguing. I guess we'll have to wait for the government sort of indicating whether that is something that helps to meet my concerns at least about what's going to happen to small business.

Mr Pouliot: We expected, Madame Birt, nothing short of this excellent presentation. Time is indeed of the essence. We're looking, by acquiescence from the ministry, at no less than 500,000 appeals, with 18 months to hear them.

Ms Birt: There are currently about 200,000 outstanding appeals in the Metro area, so 500,000 —

Mr Pouliot: But the cavalry hasn't arrived.

Ms Birt: That's right.

Mr Pouliot: You will see this caravan of misery, madame, the likes of which we have never experienced before, and the commissars will carry the guilt, and we will help them.

We've been telling them exactly what you have been informing us, that starting January 1 you have added responsibility. You will not have the tapes. You are restricted to 50% on the former tapes, 1997 assessment. You will also have a reassessment that will appear four months into your fiscal year, so you become compressed. Your latitude ceases to exist. You either go to the bank, issue debentures or you drain your operating and capital reserve, if you have any operating reserve. This is the lot, and in terms of phasing in, you don't have a choice. You need the money. You have to pay people. Packages for people who will be let go — we're not even there yet — can be costly over two years.

The government has a choice: They can slow things down, give a chance to assimilate and to digest, to appreciate your dilemma, or they can just bull ahead and suffer the consequences, because I can assure you, if you get more than 50%, it will mean that those people there have

raised taxes systematically and deliberately right away. Politically, they may not wish to do that.

Or you wait. Ms Jones gets reassessed, and within the city of Toronto, there is only one way her taxes are going to go — big time higher. It is inevitable. It is written. Some of those people date back 40 years in terms of assessment, and you have to value the property worth so much and this is the taxes — and she will have to pay that? My God, I hope they gather on the lawn to tell those people, because it's your last chance, Commissar. Slow down. Put the brakes on and do what Madame and Monsieur are saying.

The Chair: Thank you very much for coming today and for your excellent presentation.

YOUNG PEOPLES THEATRE

The Chair: Will Dean Ott, general manager of Young Peoples Theatre, please come forward. Good morning. Thank you for coming today. You have a total of half an hour, Mr Ott. If you'd like to make your presentation and leave some of that time for questions, I'll divide that time evenly among the three parties.

Mr Dean Ott: I certainly won't be taking half an hour.

My name is Dean Ott, and I'm the general manager at Young Peoples Theatre. Young Peoples Theatre was started in 1966 by Susan Rubis and is registered as a not-for-profit, charitable organization. We have three main areas of activity: We do theatre performances for families, and we do about 100 performances a year; we do theatre performances specifically for schools, and we do about 130 of those a year; we also run an extensive drama school, with about 600 students through the year.

In 1977, we renovated our permanent home at 165 Front Street East. The building was originally built in 1881 and was originally designed as the stables for the horses that pulled the streetcars. It now houses our main theatre, which is 465 seats, a smaller theatre which is 115 seats, which also doubles as a rehearsal hall, a costume shop, a prop shop and our administration offices. The building has activity scheduled in it for 360 days a year.

Our overall budget is $2.4 million. Our revenue base is as follows: 40% from ticket sales, 28% from government funding from all four levels, 14% from fund-raising, 12% from our theatre school and 6% from other areas such as concessions and teachers' workshops etc.

The production of live theatre is very labour-intensive. Out of our company's total expenditures, 70% is paid out in salaries, not just for the actors but for the designers, the musicians, the craft personnel, the technicians, the teachers and the administrators, all of whom are needed to fulfil our mandate.

In 1997, our total property tax bill was $71,000. If the Fair Municipal Finance Act (No. 2) goes through, we wouldn't need to pay that $71,000. With our not-for-profit status, that wouldn't end up in my jeans pockets; that would basically be dumped back in to produce more work, which would basically mean more employment. It would be a direct result; one would lead to the other.

I know the bill speaks about training grounds. I started in very small theatres. I started as a production assistant, basically fetching coffee, and over the last 16 years have worked myself up to a general manager position. For a lot of our staff, YPT is not a final destination. A lot of our staff, not just the actors but the ticket sellers, the people who raise funds, actually move on to the for-profit, bigger commercial theatres such as Mirvish or Livent. Both Garth Drabinsky and Ed Mirvish have been very vocal about the fact that the not-for-profit sector really feeds their business; that without them, they wouldn't have the labour pool to pull from.

I guess that's basically what I want to say, that with the changes in the funding over the last three years, this certainly would be very beneficial for the not-for-profit, smaller theatres, which I think we need to continue seeing flourish, just because they do base the large, commercial theatres, which are making Toronto certainly a destination for live theatre. That's all I have to say. Any questions?

The Chair: Thank you very much. We will go to questions now. We'll begin with the Liberal caucus.

Mr Phillips: I wasn't clear on support from the provincial government to your organization over the last five or six years. Have you received any support from the provincial government?

Mr Ott: Yes, we have.

Mr Phillips: What's the trend in that?

Mr Ott: It has declined over the last three years by about $138,000.

Mr Phillips: From what to what? Can you just give me numbers?

Mr Ott: From $407,000 to $269,000.

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Mr Phillips: I appreciate very much the support of the bill, and we're supportive of this aspect of the bill. To be perhaps mildly partisan here, the provincial government has cut your funding by $138,000, and the $71,000 break you'll get will come from the property taxpayers, because the city of Toronto will have to make up that revenue by putting it on other property taxpayers. The province has said that it will cut its education part from you, but they've said they're going to recover it from other property taxpayers.

I very much appreciate from your perspective that a dollar is a dollar, and this is $71,000. I just wanted to point out that those taxpayer dollars the province is slashing, they cut you $138,000, and the bill provides you with $71,000, but that's straight out of the municipal property taxes. So while I'm supportive of the bill and this aspect of it, I think one has to be mildly careful of patting the provincial government on the back, because they're the ones that cut you $138,000 and then say to the city of Toronto that they should cut your property taxes by $71,000 to offset what they cut provincially. It's just an observation for the organization, I guess, from at least this seat at Queen's Park. It was not a question; it was just an observation. But I appreciate the work the organization does, by the way. It's fabulous work.

Mr Pouliot: Mr Ott, thank you for your presentation. The term is appropriate: Congratulations. Under Bill 149, to become law, there are winners and losers. There are many more losers. But by ricochet, in an oblique fashion, you are a winner, you bring home some money today. Not that you have a direct association, being non-profit, with the banks, the large conglomerates. They're the perennial, residual winners; they seldom lose. In this case, they win big time.

My distinguished colleague has mentioned that you have a windfall of $71,000. That's money that you can stop paying. The government, on the other hand, has cut your budget. If you're small theatre, if you're non-profit, if you're street theatre, if you're ordinary, when they moved up the food chain, you weren't spared; in fact, you were mugged fairly big time, because, let's face it, people like us don't have the prominence, we don't speak as loudly. With those people, you are advised to say little, if anything. It's better if you are afraid, if you don't stand up.

The $71,000, vis-à-vis $407,000 to $269,000, the words wouldn't be too strong — I know you don't wish to say this, but I know them. This is a cynical and sinister ploy, and yet, I agree with you that, in your shoes, with respect, I too have to support Bill 149 as it applies to your non-profit, Mr General Manager, Mr Ott. But please take the money and run, because the other presenters will paint them the way they are, a very accurate picture of a chance for the rich, those who can run the fastest and get out of the way.

If you were to go to other committees, people have had it up to here with the bullies, with people who take advantage of the less fortunate in our society, on and on and on. I know I've had it up to here, and I've been here 13 years. I've never worked with the lot of those ReformaTories. This is not democracy. With those people it's, "Clear the track." Thank you, and best wishes to you, Mr Ott. You're one of the few winners among the bullies.

Mr Grimmett: Mr Ott, good morning. You indicated that the Young Peoples Theatre has two seating areas, one with 465 seats and the other with 115, is that correct?

Mr Ott: Correct.

Mr Grimmett: Is this representative, in your experience, of the size of theatre in Toronto, the famous small theatre community?

Mr Ott: No. I'd actually say we're on the larger end of the small community. I'd say the average seat size is about 200 or 250 for the smaller theatres.

Mr Grimmett: Given that the legislation sets out a 1,000-seat limit for the smaller theatres that would be exempt, can you give us some examples of some theatres around Toronto that might be larger than yours but under the 1,000?

Mr Ott: Yes. The St Lawrence Centre would fall under that. I believe they're 865 seats.

Mr Grimmett: Can you think of any others?

Mr Ott: No, sir, I can't.

Mr Grimmett: Okay. You talked about the importance of the smaller theatres as a training ground. I wonder if you might comment on the impact of your industry on the film industry. I've talked to some people who are in the American film industry and asked them why they're so enthusiastic about coming to Toronto, and they've indicated that it's because of the expertise, industry-wide, that exists in Toronto. I wonder if you might comment on the opportunity for the small theatres to affect this.

Mr Ott: There's a huge crossover, particularly on the technical side. A lot of the people who started in our scene shop, for instance, in scene painting, have now moved over to films. A lot of crossover happens. Our head electrician now actually started in theatre, went to film for a bit and is now back in theatre. So there is lots of crossover. A lot of the actors can't make a living doing live theatre because the jobs are few and far between, but they do a lot of work for film and TV. There's lots of crossover between the two. For anybody we'd be able to train for the theatre profession, it would not take a huge leap to see them move over to film.

Mr Grimmett: You indicated that you would benefit approximately $71,000 if we take the current year's property tax. You said that would probably be used for more employment?

Mr Ott: Correct. Basically, we would be able to produce more theatre, and by producing more theatre we would employ more people.

Mr Grimmett: In what age group would those people you hire likely be?

Mr Ott: I would say they probably average between 20 and 27. Again, obviously some of the actors would be a little older. Maybe the designer might be a little older. But a lot of our technicians and craft personnel are in that 20-to-24 bracket.

The Chair: Thank you very much, Mr Ott, for coming and for an excellent presentation.

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DAYBREAK NON-PROFIT SHELTER

The Chair: Mr Bob Grey, manager of Daybreak Non-Profit Shelter, could you please come forward? The group that was originally to come in at 10:30, the Alliance of Manufacturers and Exporters Canada, is now not coming, so Mr Grey has agreed to present now as opposed to at 11:30. That explains the change in the schedule. Mr Grey, just before you start your presentation, I'd like to explain that you have half an hour. You can use the time as you wish. If you leave time for questions, I'll divide it equally among the three parties here. Perhaps you would be so kind as to identify yourself for the record.

Mr Bob Grey: I have just four of these overheads and they're not too long, so I'm going to have to shuttle back and forth just a little bit. I certainly am not a speechifier, and I don't plan to take up anywhere near one half-hour of your time, but I'd be happy to try to answer any questions. I want to thank you very much for the opportunity to be here today. For what it's worth, I happened to be at the Ontario Non-Profit Housing Association conference on the weekend. It was great to be able to twin coming to see

you folks today with that, because I doubt if I would have been here otherwise, just to make a special trip here.

I want to thank you again for the opportunity to be here today and to address a very critical aspect of the Assessment Act for us at Daybreak. It hinges on this first slide, that when one charitable institution leases to another charitable institution, the leasing charitable institution, which is the case here, is not eligible for an exemption from property taxes. For us, this is an issue which is most critical and most important, and I'll explain that as I go along just a little bit.

Most non-profit housing corporations, as you may know, are not incorporated charitable organizations, which Daybreak is. As a matter of fact, we know of only one other similar housing resource in Ottawa that is in a similar situation, again with a church leasing land to a group that's providing social housing.

Daybreak started in 1982. We've been around for a little while. It was started by a group seven centre-town churches in Ottawa. The group's mandate is to address the shortage of affordable housing for single adults with special needs. Daybreak is a community-based and volunteer-driven agency. For what it's worth, I do work full-time at Daybreak Non-Profit Shelter, and one other person works full-time at Daybreak Non-Profit Shelter. I don't know what other groups do or don't do, but I don't think we're overly bureaucratized. We're very volunteer-dependent. We have a core of very committed and dedicated volunteers. We have, for example, an accountant who is a vice-president of Met Life in Ottawa who does our books for us for free, because we don't have any money to pay even a bookkeeper. We also have a lawyer who helps us out from time to time with legal matters as they may arise, again solely on a volunteer, pro bono basis, if you will. That's the nuts and bolts of who is behind Daybreak, to some extent at least.

We're trying to provide supportive housing for single adults with psychiatric and/or substance abuse difficulties. All of these folks are in need of stable, supported housing which is safe and secure. All of these folks are persons with extremely limited incomes.

Daybreak has four houses in total, three of which, because we own and occupy them, are exempt from property taxes, one of which is leased from St George's Anglican Church in Ottawa. Although they're a registered, charitable organization and although Daybreak is a registered, charitable organization, we are not eligible, because of the ownership-occupying requirement in the Assessment Act. The annual property taxes are $18,000 a year. It's an amount we simply are not able to afford. Under the present circumstances that we have, at any rate, the landlord charitable organization, which is billed for the property taxes, passes the bill on to Daybreak, or the leasing charitable organization. Again, in Daybreak's case, this amounts to $18,000 a year.

I'm certain you've never had anyone here before you looking for help or a handout or relief from a difficult situation, but here's the bottom line, and as long as you folks will allow me to stay here I'll just leave that slide there. That's my last one. We do sincerely urge you to consider amending Bill 149 in the instance of one charitable organization leasing to another charitable organization. I understand that the government is presently proposing an amendment to allow for a 40% exemption of property taxes in the case of one charitable organization leasing to another, and I certainly don't want to look gift horses or any other friendly gestures in the mouth, but I've got to tell you most sincerely and as earnestly as I can that in Daybreak's case, this would leave us with a property tax bill of some $10,800 a year, which is an amount that we are still unable to afford. I suppose if it were $50 a year, I wouldn't be here taking up your valuable time.

Yesterday afternoon I had the opportunity of listening to Mr Al Leach, the Minister of Municipal Affairs and Housing, at the Ontario Non-Profit Housing Association conference that was held here in Toronto, and he said two things that stuck out in my mind quite clearly. One of the things he said was that the biggest barrier to the construction of new rental housing in Ontario is property taxes, and certainly we at Little Daybreak non-profit housing can identify with the difficulty that property taxes pose with rental housing.

The other thing that Mr Leach said yesterday is that in the area of housing in Ontario, the government's number one goal is to provide good housing to the neediest and most vulnerable in our society. We at Daybreak are doing that work. We are providing housing to the neediest and most vulnerable in our society, and what we are asking you good folks to consider is that in this instance, as isolated as it may be, when one charitable group like a church has leased land to another charitable group to provide supportive housing to the neediest and most vulnerable in our society, an exemption from property taxes be allowed.

Again, I have to say that over the course of time, because of the three other houses we have, for which we are property-tax-exempt, anyone with whom I've ever spoken at various government levels, bureaucrats or whatever say this is an anomaly that makes absolutely no sense; if a charitable group is eligible for an exemption, they ought to go forth and seek it. In the instance of one charitable group leasing to another charitable group for social good, "It makes no sense, but unfortunately here is the bill, and could you please pay it."

I want to thank you folks very much for your time this morning. I want to ask you again, as earnestly and sincerely as I possibly can, to consider amending Bill 149 in the instance again of one charitable group leasing to another charitable group, and at least in Daybreak's instance, if I could be so bold as to say, providing such a worthwhile service to the community.

The Chair: Thank you very much for your presentation. I'll divide the remaining time among the three caucuses, approximately seven minutes per caucus. We'll begin with Mr Pouliot of the NDP.

Mr Pouliot: Thank you and welcome. You rent, Mr Grey, from a place of worship which is exempt from taxation by that definition?

Mr Grey: Yes.

Mr Pouliot: I read your brochure. Being somewhat aware of the good deeds that you do — your courage is great — you are a continuation. You really are a veritable place of worship, those four houses, they are.

Mr Grey: I suppose to a certain extent. From what I understand in terms of how exemptions from property tax may work, people look at square footages and they want to know exactly where the worship is located. We don't actually conduct worship services in the house. We are, however, definitely an extension and an outgrowth of the church community in Ottawa, and without their private donations, we simply couldn't continue to provide our housing either.

Mr Pouliot: I have your mandate here, and it says, "The mission of Daybreak is to provide minimum support houses emphasizing community living for single people with limited income," some of whom are challenged, and you give them a chance to be like the others. That's what Daybreak does.

Mr Grey: That's what it's all about.

1030

Mr Pouliot: And it's costing you, because you're not the per statute charitable organization; you're a derivative. We all know that, we sense that, but you don't fall within the definition.

Mr Grey: My understanding is that you have to both lease and operate a property and fall within the definition of a charitable organization to be exempt. We have three other houses which we both own and occupy, and we are property-tax-exempt.

Mr Pouliot: Yes, and you don't have a league of lawyers. You mention that when it comes time to reconcile the books, to do the accounting, a financial audit, a good Samaritan does it for free, because you just cannot meet the bills.

Mr Grey, there's an irony in here, and it's not intended. Under Bill 149, what we are here to address is the richer you are the more you benefit; if you are a large insurance company with a lot of floor space, if you're a bank, you benefit a lot; and yet you at Daybreak just don't fit the mould here. You certainly don't fit the mentality of the present administration.

How is Daybreak funded? You get individuals, business, service clubs, private foundations, churches and government grants. By way of a question, how much money do you get from government grants? Has it increased, has it stayed the same or has it decreased over the past three years?

Mr Grey: Over the past three years and even a little bit before that, I suppose, it was decreasing to some extent. Basically what we have is $85,000 to employ two and a half people to provide the support, of whom I am one. I mentioned there were two full-time people, and there is one part-time. I don't know how familiar you folks may or may not be with non-profit housing, but this house is administered under a Canada Mortgage and Housing Corp subsidy, and they subsidize the repayment of the mortgage. There is no provision from their funding stream for anything to do with property taxes — among other things, for what that's worth.

We provide furnished rooms, for example. We have raised that from the community. We provide furnished rooms for folks who have no money, and its incumbent upon us to find the money other than public money, in other words private money, to do that kind of work.

Mr Pouliot: You're asking that your non-profit situation be recognized by way of an exemption. The people who were here before, Mr Grey, they're okay, because they're a small theatre, they're non-profit. You are non-profit.

Mr Grey: Yes.

Mr Pouliot: That's what it's all about. There's a human dimension extraordinaire. You're helping the marginalized. You're helping people who are down and out.

Mr Grey: Yes, and it's not that I'm just a non-profit-housing provider looking for property tax relief; I'm talking about a registered charity that has four houses, three of which we own and operate and are property-tax-exempt. This one property we lease from another registered charity to provide supportive housing, but because we don't both own and occupy, we are not eligible for an exemption from property taxes. It's not just non-profit housing; it's also that we are a registered charity.

Mr Pouliot: I thank you very kindly, and I thank you, Chair.

Mr Grimmett: Thank you, Mr Grey, for appearing today. From Ottawa?

Mr Grey: Yes, sir.

Mr Grimmett: I wonder if I could ask you a few questions that relate to the actual building you're in. First of all, you estimate that the property taxes are $18,000. How long have you been in the building?

Mr Grey: We've been occupying that building since 1985 actually.

Mr Grimmett: Have you been paying the property taxes since then?

Mr Grey: From 1985 through to 1995, we received a grant from the city of Ottawa to pay for the property taxes. They didn't want to be doing that. All along the way they told us, "You ought to be seeking some long-term solution to alleviate this," and without trying to make any political points, in 1995 they discontinued their grant because of the reduction in transfer payments from the province. They said they were no longer able to afford to do that.

We have spoken with some regional government folks and some school board folks, and there is absolutely no appetite whatsoever, they have said most emphatically, to have us going hat in hand every year or every two years to be looking for relief of property taxes. They also have told us to seek a long-term solution. Along the way, several folks have suggested that I come down and visit you folks some day and ask you to rewrite the Assessment Act.

Mr Grimmett: So that's why you're here?

Mr Grey: Yes, sir.

Mr Grimmett: I don't know the property myself — perhaps one of my colleagues from Ottawa does — but the $18,000 figure, is it a single home?

Mr Grey: It's a single home. It's right in downtown Ottawa. It's a rather large three-storey home. We house 10 women with special needs in that house. I don't pretend to understand all the nuts and bolts and detail, but the zoning is such that it could be allowed for commercial use, and I have been told that as much as an eight-storey building could be constructed on the property, and hence the property taxes are $18,000 a year.

Mr Grimmett: If it's a mixed-use property, I understand that the municipality could offer a tax rebate. Is that your understanding?

Mr Grey: I'm not aware of that. The only thing I do know is that we did receive grants for that 10-year period, but we have been told most emphatically and forcefully that those will not continue.

Mr Grimmett: Am I correct in saying that you currently have other facilities and they are owned?

Mr Grey: Yes, sir.

Mr Grimmett: So you don't have that problem with the owned facilities?

Mr Grey: No, sir. Because we're a registered charity and we own and occupy the other three houses and we're conducting charitable work — I think "relief of the poor" is the old wording from the 1800s — we are exempt from the payment of property taxes.

Mr Grimmett: Have you explored the idea of having the church transfer the ownership to you?

Mr Grey: We have talked to them about that, because it's the only other long-term solution that we can think of. To be honest, the church has told us that they'll think about that, but they have made no promises to date. It's a big step for them. What they have done is given us a 40-year lease for a rental amount of $50,000, which works out to about $1,200 rent a year, so the church is not trying to make money off Little Daybreak, but they do want to retain their asset.

There are a couple other churches in Ottawa that have given over surplus property. There's a St Andrew's Presbyterian that has a Bank of Canada building on it, from which I gather they're deriving considerable — or should I say perhaps considerable — revenue. I can't remember what it is, but it's a lease of 30 years or 50 years, whatever, because the church wants to retain control of its asset. They can't predict the future and what the future may hold for them, and so for the church next door to this house, they have told us that they would be willing to think about it because they want us to stay there, but it would be a big step for them, and it's at a minimum uncertain that they would be able to go to that big step.

Mr Grimmett: In your experience and from talking to the other groups, you are unique in Ontario?

Mr Grey: "Unique" might be a little bit too strong a word, because as I say, I know of one other housing group in Ottawa that is in a similar situation. It's Bruce House. It's a house for persons living with HIV, and it's leased from a Catholic church in that instance. I can't remember the name of the Catholic church, but again because it's a charitable institution leasing to another charitable institution and the sort of end charitable institution, if you will, doesn't both own and occupy the property, they are not exempt from property taxes.

Mr Grimmett: Thank you for your presentation. We'll certainly be considering it seriously.

The Chair: We'll now move to the Liberal caucus.

Mr Richard Patten (Ottawa Centre): Good morning, Bob.

Mr Grey: Good morning, sir.

Mr Patten: I expected your presentation to be a little later, by the way. I'm sorry I missed it, but I gather I know the gist of what your presentation might hold.

I must tell the committee that I know personally this organization, which is a charitable organization and does exceptional work. I visited one of their homes as recently as two weeks ago, and I tell you, if an organization like this cannot survive, it would fall upon government to pay for a lot of people who just would not have the kind of shelter, let alone the quality of work that they do with the individuals who are there. Some people arrive at their shelter in pretty sorry shape, and they work with individuals to get them back on their feet, to develop their social skills, their self-confidence, their capacity to find work, part-time, full-time, that sort of thing. I'm very high on the work they do and I'm familiar with it.

Bob, I didn't hear your presentation, but I have copies of letters that you have said to the Minister of Finance and some copies to me. What you're saying is heretofore you didn't have to pay property tax because it was picked up by the municipal government and that has now, I gather, fallen to the region, and the region is saying they don't have the funds to do so. If you owned the building, there would be no problem, but because a charitable organization leases from another charitable organization, you may be eligible for an exemption of up to 40%. Is that correct?

Mr Grey: That's my understanding of where we're heading right now, and with the $18,000 a year — sorry, it was on a previous slide — that would knock it down to $10,800 a year if I've done my arithmetic correctly, and it's still just not an amount that we could afford to pay.

Mr Patten: Do you have an accumulated debt?

Mr Grey: On the property taxes we do, yes. We haven't paid them since the discontinuation of the grant. I don't know if I should be — is this mike live? I've never been with such an august group of folks before.

For us it's very simple. It seems so anomalous as to be almost silly that with the three houses we have as a registered charity conducting charitable work, where we own and occupy them, we're exempt from the payment of property taxes, and in the instance of this one house, where we rent it from a good group of church folks and provide our social service, because we don't both own and occupy it, we're not exempt. That's perhaps a convoluted answer to your question, sir. No, we have not paid the property taxes since the end of 1995, since the grant was stopped, so the issue is going to hit the proverbial fan pretty soon in terms of somebody wanting to come and help us out, and we thought you good folks would want to do that first.

Mr Patten: What was the rationale for a 40% threshold? Have you ever received an answer about what the rationale is for putting a 40% threshold on the exemption?

Mr Grey: No. I have no idea what the rationale for that is. I am not aware of how that figure was arrived at.

Mr Patten: So with this accumulated money, is your organization threatened?

Mr Grey: Most definitely. At some point it's the real world. There's a bill out there and it's due, and there's interest mounting on it. At some point somebody is going to want that money. It's something that we don't want to seriously consider, but quite frankly, the 10 women with special needs who are living in this house — we can't afford an annual property tax bill of $18,000; I don't know what we'd do to pay the back taxes right off, but we would have to discontinue the housing there — I don't know where those 10 women would go. I don't mean to abuse the intelligence of you folks here, but the waiting lists for supportive housing across the province are huge and long. I don't know where those 10 women are going to go, because we're not going to be able to afford to house them in that particular house.

Mr Patten: I didn't catch your full presentation. Did you have a specific suggestion on the rewrite to the section that deals with the exemption?

Mr Grey: Yes. We would like charitable organizations which are leasing from another charitable organization, where one charitable organization owns and the other occupies, to be exempt from the payment of property taxes again like the situation with the three other houses which we both own and occupy.

Mr Patten: I can't see how the committee could turn down such a reasonable request.

Mr Grey: I didn't think anyone would think differently actually.

The Chair: Thank you very much for coming today, and thank you for your presentation.

Mr Grey: Thank you very much for your time. I know you folks have lots of things on your minds and lots of important issues, and I don't know in the great scheme of the universe how important this issue may be, but for the 10 women whom we house and Little Daybreak non-profit housing in Ottawa, this is a critical issue. I thank you for your time and your serious consideration of our request for what seems to be such an anomalous situation of owning and occupying.

The Chair: Thank you very much.

Are the representatives from the Motion Picture Theatre Association of Ontario here? They're not due until 11, actually, so we'll take a short recess until 11.

The committee recessed from 1045 to 1100.

MOTION PICTURE THEATRE ASSOCIATION OF ONTARIO

The Chair: We now have before us representatives from the Motion Picture Theatre Association of Ontario. Please introduce yourselves for the record and go ahead.

Mr Dan McGrath: Good morning, members of the committee. My name is Dan McGrath. I am vice-president of the Motion Picture Theatre Association of Ontario. I'm also vice-president of operations for Cineplex Odeon Corp, based here in Toronto. With me today is Jeff Sullivan, who's a member of the real estate department at Cineplex Odeon.

The Ontario association represents the views of the motion picture exhibitor. Our members include Cineplex Odeon, Famous Players and a number of independent owners throughout Ontario, including Stinson Theatres, Ontario Theatre Group and Tarrant and Tarken Entertainment Group, to name a few.

Our members play an important role in Ontario's economy. We have 670 screens on 162 properties across the province. We employ more than 3,000 people; the majority of those employees are under the age of 21. Our larger members are currently investing in Ontario tens of millions of dollars over the next two to three years, creating direct construction jobs and other spinoff benefits to local communities.

We are here today to enhance your understanding of our industry. As well, we have some technical issues related to Bill 149 that we would like to present.

When people think of movies, they often think of the latest record-breaking attendance or see lines around the corner on opening weekend. More films are being introduced to the market more frequently and with a faster turnaround than ever before. Subsequently, most people think if the movies are successful, then exhibitors must be making comfortable profits. Unfortunately for us, this is not necessarily the case.

In fact, movies that have a short run in our theatres, less than four weeks, for example, are very expensive to us. We must pay a significant percentage to the distributors for exhibiting films. For example, on average, for the first week of exhibition we pay 70% of gross profits to the distributors, the second week 60%, the third week 50%, and so on until we hit a floor of usually about 30%. While opening weekend attendance may be setting records, much of that has to do with the record numbers of screens showing films.

Overall, attendance has been static for a number of years. Over the past 10 years, the North American theatre industry has seen attendance to be flat, in Canada particularly since the introduction of the GST. Competition from video and pay TV movie networks has also contributed to this problem. Even though we are investing by building more and more theatres, we do not necessarily view it as an expansion, given that attendance numbers have been flat. It is very unlikely that we will have significantly more people attending movies — although we certainly hope to increase attendance if we can — simply because there are more theatres. We are making investments to provide better service and convenience to our existing customers.

In an effort to compete for the consumer's entertainment dollar, we must make capital and ongoing technology upgrades to improve sound and picture quality so custom-

ers feel they are getting value for money for a complete entertainment experience. Therefore, after we pay GST and the province's amusement tax on gross ticket admissions, we are left with dealing with our operating expenses. After payroll taxes, property tax, payroll, rent, film costs and other operating expenses, we are left with very slim profits.

The situation is even more precarious for our independent members, many of whom operate single or double screens. They may be the only theatre in a small, more remote community, particularly in parts of northern Ontario. As independent owners, they cannot afford to be unprofitable, because losses cannot be offset by other, more profitable venues.

These owners are often located on the main street, thereby playing an active and key role in the life and vitality of the community, acting as anchors for restaurants and shops. Some independent owners did not survive the recession and were forced to close theatres. Those that remain walk a fine line for economic survival.

The finance minister has outlined that the objective of the present property tax reform is to provide "all Ontario taxpayers a system of property assessment and taxation that is fair, consistent, understandable and accountable." The province is also continuing to pursue reduction of red tape to business. The elimination of a role for the Ontario Municipal Board in the assessment appeal process is clear evidence of the seriousness of the government in this regard.

We support more fairness in the property tax and other systems and we support the general direction the government is taking in trying to instil equity into the system. However, we are concerned about the tax burden on the commercial class, and significantly our industry. Many of our members require large square footage in strategic locations. As a result, we are often located in high-value shopping malls or retail areas or neighbourhoods. Property taxes in Ontario, particularly in Metropolitan Toronto, are already the highest among our neighbouring jurisdictions. Property taxes in shopping centres have increased significantly in the past 10 years as a total of our operating costs.

With increases in property taxes, we only have two choices to manage these costs: shift them to the consumer or absorb them as an operating cost. Our industry has low profit margins, and the intensity of competition in the movie marketplace precludes us from being able to pass on these costs. We are very close to the consumer price saturation point already. Therefore, we must absorb it as a cost of doing business. The end result is a more limited ability to pursue new investments, hire additional staff or do capital and technology upgrades, all important service enhancements to our customers.

We also have specific concerns about Bill 149, which has differing impacts on our members. Many of the independent theatre owners own their properties. However, Famous Players and Cineplex Odeon lease over 90% of their properties, with the majority of the holdings being in larger urban centres, primarily in the greater Toronto area.

Bill 149 introduces amendments to the property assessment system that significantly diminish the rights of commercial tenants. Ontario legislation has implicitly and explicitly recognized the important role of the tenant as a taxpayer. The Municipal Act treats tenants like owners for the purposes of collecting taxes.

In most cases, commercial tenants are responsible for taxes levied on the space they occupy. Under Bill 149, tenants will no longer receive a notice of assessment outlining the value assigned to their leasehold space. The rationale for this appears to be that with the removal of the business occupancy tax, the apportionment notice which tenants previously received is no longer necessary. However, that notice provided some transparency and accountability in the assessment system. Under the new bill, the tenant has no statutory right to determine whether the assessment upon which the taxes are based is correct. The landlord has no obligation to make such information available to the tenant.

Along with the loss of the assessment notice, tenants have lost the right to appeal the individual assessment on the occupied space. Under Bill 149, commercial tenants have no access to the new process for reconsideration. Tenants are forced into costly new processes requiring formal appeals of the assessment on entire properties in order to resolve individual assessment concerns.

This change is of great concern to theatre tenants for the following reasons:

Theatres in malls tend to occupy non-prime locations of a fairly large size. This has resulted in lower assessments per square foot than other tenants in multi-unit locations, due to the determination of separate values for each tenant.

The proposed reassessment will allow the landlord to invoice his taxes based on one assessment only for the mall; therefore, all tenants may be assessed a proportionate share, which is normally done on a square-footage basis, and specific circumstances as non-prime renters will no longer be recognized.

Theatres currently have a business tax assessment, a BOT, of between 25% and 30% of our premises assessment, a rate much lower than other tenants. Under Bill 149, if a new surtax in lieu of the BOT is added to the realty tax assessment of a shopping centre, we stand to have a much greater tax burden due to taxes being allocated based on proportionate share.

A significant amount of control of tenants' total rent — taxes — will be lost. Any attempt to address a tenant's taxation concerns will be difficult, because many landlords will simply not take the initiative to assist the tenant.

These changes are inconsistent with other parts of the bill which continue to afford these rights to tenants for supplementary assessments, corrections of errors, omissions and other assessment changes. In essence, the new system under this bill will unfairly shift taxes to larger tenants and leaves a very limited process of appeal for us.

We have put forth a number of recommendations. In an effort to ensure fairness, equity and accountability, we would like to recommend the following:

That tenants receive notices from assessors or landlords regarding the origin and accuracy of the assessment.

That tenants be allowed access to the reconsideration process related to the assessment notice.

That landlords be required to allocate tax bills based on fair market rents, not proportionate share of square footage.

That any legislation be applied to new agreements only, as many existing agreements we have with our landlords now may not have been entered into at the higher tax burdens that will be put in place with this new legislation.

Thank you for listening to our concerns today. We would be pleased to answer any questions you may have.

The Chair: Thank you very much. We have approximately seven minutes per caucus. We'll begin with the government caucus.

Mr Grimmett: Thank you for your presentation. I'd like to ask first about the issue of the landlords' passing the information on to the tenants about the assessment. It is an issue that we should be taking a look at, because it has certainly been raised by other people. The one point I wanted to make was that from my experience with commercial leases, where the tax is a component in the rent the lease would require the landlord to provide the assessment information as soon as they receive it. That would be standard anyway.

Mr McGrath: In most cases, I believe it is. Is that the normal case, Jeff?

Mr Jeff Sullivan: Yes.

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Mr Grimmett: What you're really looking for, then, is that the government state that in the legislation.

Mr Sullivan: The problem we are concerned is about is that currently we get a separate assessment for our own premises and that's what our taxes are based on. To my understanding, now all there is going to be is one assessment for the entire shopping centre. We can verify if the bill from the government is correct, because the assessment for the entire shopping centre will be there, but we won't know what our portion of the taxes is because we won't have a separate assessment notice for our separate premises.

Mr Phillips: Thank you very much. Is it normal for the theatres to be paying BOT of 25% to 30%? Is that customary across the province?

Mr McGrath: Yes.

Mr Phillips: Based on what we've heard today, our expectation is that every municipality will take the business occupancy tax that they've lost and put it back on realty taxes for commercial and industrial. As a matter of fact, I think the bill itself requires them to do that for the interim tax bill; they have to take the BOT and put it back on. Has your organization done any calculation of what that may cost a typical theatre, regardless of any other change?

Mr McGrath: It's difficult for us to do that calculation until we know exactly how we are going to be apportioned the new realty taxes. The big issue that comes into play is that if instead of paying realty taxes as a proportion of our fair market rent we start paying based purely on square footage, our property taxes will go up immediately and then the surtax will go up as well. We almost can get a double hit with the BOT being added on, but until we know exactly how that change will affect us, it's hard for us to do the calculation.

Mr Phillips: Mr Grimmett raised the point about notice of the assessment, and on the surface that seems reasonable. Now, there may be some reasons it's not reasonable. I gather we're expecting 500,000 appeals across the province, so 500,000 times the number of hours for an appeal is a lot of time. It may be meant to try to minimize the time spent on appeals, but for organizations like yours, companies like yours, it's quite important.

You say, "That landlords be required to allocate tax bills based on fair market rents." Is that what you want, that it must be done on fair market rent, not proportionate share?

Mr McGrath: That's what we would like, yes. As an anchor tenant, we generally pay lower square-footage costs, and also because we have a much lower efficiency use of the large square footage. I mean, any large theatre has a very large footprint and a large square footage we have to take up, but it only gets used for four hours a night, as opposed to most retail tenants, so the efficiency use is very low on that property. If we move to automatically getting just our share of square footage, that puts an inordinate burden on us. If we went to fair market rent, it would be essentially the same way it's done today.

Mr Phillips: What does the proposed bill say currently about how a landlord must allocate the taxes? Does the bill prescribe any approach?

Mr McGrath: I don't believe it does. My knowledge of the bill is that it doesn't. I'm not sure. What we're concerned about is that many of our leases actually say in the lease that if there is not a specific assessment for your property, you will be assessed on a proportionate share. Our lease actually says that, as opposed to Bill 149 saying that.

Mr Phillips: So the bill, in your opinion, is silent on it. The government may be able to help us out there, now or sometime.

Mr Grimmett: I don't have the answer for you right now, but I'll try to get it before the end of the day.

Mr Phillips: In your fourth recommendation, you're suggesting that it apply to new agreements only. If we were to accept your fourth recommendation, if the landlord gets a substantial tax increase you're suggesting that until the new leases are negotiated, taxes be allocated on the basis of existing leases. Is that —

Mr McGrath: Yes, that's essentially what we're saying. When we look at the economics of a project, we take a look at what our total occupancy costs are: rent, property taxes etc. When we look at even a theatre we may be building today, the economics of that lease were done based on the policies that were in effect at the time. If there's now a significant increase in the tax burden, that may or may not have an impact on whether we would have

moved forward with that project in the first place, depending on the level of the taxes.

Mr Phillips: It's going to be challenging, I guess. You're speaking on behalf of — you call them anchor tenants. You and many of the department stores I guess would be regarded as the anchor tenants, and major food stores. The challenge would be that many leases would be negotiated for five to 10 years, so in some respects —

Mr McGrath: And longer. Most we deal with are 20-year leases.

Mr Phillips: What is your own personal expectation? If the bill is silent on how landlords can allocate the taxes, has your organization had any discussion with your major landlords about what their expectations are about how this will be handled?

Mr McGrath: Our expectation is that the first thing the landlords will do is look to the lease to see if the lease actually says anything. If the lease says it will done based on proportionate share, they will automatically do that based on proportionate share, and we don't have anything to argue against that. I mean, that's what the lease says, so that's the way it would be.

Jeff, do we know what percentage of our leases would be silent on that issue and which address it?

Mr Sullivan: A large majority of them would have that statement in them.

Mr Phillips: I remember that when the minister introduced the bill, he said the vast majority of existing leases allowed for a flow-through of taxes. I gather his expectation was that it would be simply flowed through on the basis of existing leases.

Mr McGrath: That's right, and almost all leases would actually have a flow-through. It's just the mechanism of how they're actually flowed through; a change in that mechanism is what we're concerned about.

Mr Phillips: Is there a change in the mechanism proposed in the bill, in your opinion?

Mr Sullivan: Right now, most of our taxes are billed on separate assessment, which is much to our benefit. Should the bill go through, we'll be paying a proportionate share, which is going to shift a large part of the taxes on to the major tenants in a mall, and that will hurt our business.

Mr Pouliot: Good morning, gentlemen. Life-long learning indeed: I was intrigued that the blockbusters are not so terribly lucrative unless they have staying power. Then, using your terminology, you must compete with yourself, if you wish, with many, many screens showing the same movie, so it becomes a self-made competitor.

Most municipal presenters, the reeves, the mayors of councils from across the province, with the devolution and their responsibility for new services, expect municipal taxes to go up. By this they mean the three sectors, residential, commercial and industrial. They also have the ability, under the statutes, to go to a full 50% on the interim tax levy. Our understanding is that this will be inclusive of the identified BOT levy of the previous year. So if some expect a break, a decrease, by virtue of the BOT being decreased, it will not happen. We're talking about the interim tax levy.

My colleague has mentioned that no fewer than 500,000 appeals will be forthcoming. The ministry said that yesterday during their briefing. Mayors are saying that taxes will go up. When the final assessment notice comes to you or to your landlord, there will be a break on the business occupancy tax, but community leaders tell us they will take full advantage of a subclass of taxes. If a dollar is a dollar, the only difference is that you might have to fork over more of those dollars. You will see one hand take away the BOT, and the other hand, at the same time, will come up with the multiplier, the mill rate. They can do what they wish; they have that jurisdictional capacity.

You have a given now; it has also been acknowledged by the government. Most of your leases are fairly long-term, but there are contingencies, sort of an invocation of force majeure vis-à-vis taxes. If taxes go up, there is an adjustment of sorts. The landlord doesn't even have to open the lease; they can pass it along.

I sense in the tone of your presentation that on the eve of passage — because they have a majority, and at the end of the day, almost inevitably the majority will have it's way. In their case — well, I won't bore you with their closures and their draconian measures never before seen in the annals of the province. That's their philosophy; I'll leave it at that.

Do you sense that your operations will be jeopardized, and do you sense that the $10 million and more presently being allocated for capital expenditure would have been in jeopardy had we known what is about to take place? Actually, we still don't know, because they keep us in the dark. Would that affect the marketplace? I read that your margin is very thin; you go on volume more than anything else.

Mr McGrath: Exactly. It could. I can't sit here and say for sure that it would or wouldn't have. We'd have to know the specific instances. As I say, we have to look at each lease and determine the economics of every lease before we decide to move forward, but it's quite likely that one or two of the projects would certainly have to be looked at differently, anyhow, before we would decide to move forward, if there was a significant increase in the tax burden. Again, it's very hard, until we know the exact numbers, to determine that.

The Chair: Thank you very much for your presentation today. The committee is recessed until 1 pm.

The committee recessed from 1124 to 1307.

TORONTO THEATRE ALLIANCE

The Chair: We'll continue public hearings in the standing committee on finance and economic affairs. Presenting is the Toronto Theatre Alliance. You have half an hour to use as you wish. If you would like to leave time for questions, I'll divide the time evenly among the three parties on the committee. If you would, please state your name for the record and then go ahead.

Ms Jessica Fraser: My name is Jessica Fraser. I am the executive director of the Toronto Theatre Alliance.

Mr Chairman, members of the committee, thank you for giving me the opportunity to speak to you this afternoon. As the executive director of the Toronto Theatre Alliance, of course it will be from this perspective that I will address Bill 149 and its references to property tax and live theatre.

Firstly, I think it would be really helpful for you to have a little background on the Theatre Alliance and its constituency. The Toronto Theatre Alliance is a service organization with a membership of over 180 professional theatre and dance companies located throughout Metropolitan Toronto. They encompass the broad spectrum of theatrical producers and theatrical venues — small experimental theatres, classical ballet companies, large public venues, not-for-profit and commercial producers. They are all members of the Toronto Theatre Alliance.

The Toronto Theatre Alliance provides membership services for these people, it promotes Toronto theatre regionally, nationally and internationally, administers Toronto's theatre awards, those are the Dora Mavor Moore awards, and it owns and operates T.O.TIX, Toronto's ticket booth, which is very similar to TKTS in New York.

From its humble beginnings in 1962, when there were only two professional theatre companies in Toronto, the city has become one of the foremost cultural destinations in the world. Toronto ranks as the third-largest theatre centre, after New York and London. More than seven million people attend live theatrical performances each year in 70 venues across the area. We — and that's all of us: producers, umbrella organizations, governments and the media — have done an excellent job of getting this message out. Cultural tourists come to Toronto in droves. Corporations locate here because of the quality of life for their employees, and citizens enjoy a vibrant downtown core thanks to the glittering and dynamic presence of live performing arts. On any given evening, patrons can experience a virtual smorgasbord of theatrical delights.

It is really important to note that none of those different kinds of theatres work in isolation from one another. They are all interconnected. There is what I call a very complex feeding chain. Not-for-profits which own theatre venues rent to smaller not-for-profits which don't. Large public venues rent to both commercial and not-for-profits. Commercial producers will be the first to tell you that they rely on the publicly funded, not-for-profit theatres as a training ground for talent both on stage and behind the scenes and that they credit public funding for a big part of their commercial success. There are co-productions and co-co-productions. There are co-productions between two not-for-profits and co-productions between not-for-profits and commercial producers.

A cultural centre is not comprised of one or even two theatres. It requires all the layers, all the genres and all the diversity. Conversely, in the last few years Ontario's not-for-profit performing arts companies have also experienced a significant erosion in public funding. From the Ontario Arts Council alone, $17 million has disappeared; $2.9 million of that is from theatre programs. This cut, in combination with others from government funding agencies at the municipal and federal levels, has seriously threatened the fragile ecology of the performing arts in Ontario and indeed the very future of some of our not-for-profit theatres.

This is the reality on which Bill 149 will impact. As the executive director of a very complex organization representing a widely diverse membership, my comments today must also respect that diversity and the varying influence this bill will exert on their operations.

First of all, the Toronto Theatre Alliance applauds and commends the government of Ontario for its proposal to exempt theatres of under 1,000 seats from property tax. While this exemption can never make up for the revenue lost due to reduced funding, it certainly will ease the pain for some of them and will level the playing field in the not-for-profit sector. Removing this property tax will allow those venued companies to rent their facilities to smaller companies at reasonable rates, thereby ensuring the continued creation and production of indigenous Canadian theatre and dance.

Secondly, it is my understanding that a subclass has been proposed for large commercial theatres. This too we applaud. It is imperative that Toronto's commercial producers have the ability to compete globally. This is a high-risk, labour-intensive business and therefore very costly. Their productions drive the industry and create interest in the other genres of theatre produced in the city.

My greatest concern regarding the changes proposed by Bill 149 lies with the not-for-profit public venues, theatres which do not produce their own work but which host both commercial and not-for-profit productions throughout the course of a year. Currently, these theatres are exempt from property tax. Their mandates commit them to promote and advance artistic, musical and cultural productions for the benefit of the public. I believe that another benefit of not taxing these institutions is that the profits generated by commercial productions make their venues more financially accessible to not-for-profit companies or, in the case of a theatre like the Elgin, for heritage projects across the province. If these theatres are taxed based on 50% plus usage by commercial productions, I am concerned that the increased costs to the theatres will be passed down via higher rental rates to the not-for-profit companies. This has the potential to seriously damage that fragile ecology which I mentioned before.

I also wonder what the status will be for large not-for-profit companies who own and operate a venue of over 1,000 seats. I am thinking especially of the proposed opera house and what Bill 149 will mean to the Canadian Opera Company. I'm not sure that this eventuality has been captured so far by the bill.

It is in the best interests of all Ontarians to protect the infrastructure of Toronto's performing arts industry. We all want Toronto to be a vibrant, healthy artistic centre. We want lots of theatre. We want a large theatre-going public. We want pages and pages of theatre and dance listings in the media. With the proposed legislation of Bill 149, I urge you to consider not only protecting this

fabulous cultural centre but also ensuring that it flourishes and that it keeps Toronto, Ontario and Canada front and centre on the world stage.

The copies you have of Westways magazine, I just gave to you because there's a wonderful article on theatre in Toronto; it starts on page 39. I think you would enjoy it, and I think it would give you just a little glimpse of the esteem this theatre community is held in throughout the world.

The Chair: Thank you very much for an excellent presentation. We will now go to questions from the three caucuses. It's about seven minutes each. We'll begin with Mr Phillips from the Liberal caucus.

Mr Phillips: Thank you for your presentation. You indicated earlier that provincial funding to your organizations has been cut by $2.9 million?

Ms Fraser: To the theatre companies throughout Ontario, yes; from the Ontario Arts Council.

Mr Phillips: Do you have any idea of what the total reduction in taxes will mean to your group?

Ms Fraser: I believe it will mean several hundred thousand dollars, probably about half a million, but I do not have accurate figures. This would be something I'd have to do research for, but I'd be happy to do it if anyone needs that.

Mr Phillips: That would be interesting to us. I just have an observation, because I think you used the phrase "congratulate the government on this."

Ms Fraser: I said "commend."

Mr Phillips: Commend. I can't read my own writing; "commend the government." I would just point out — and I'm in opposition, so I tend to look at the opposite view — what the provincial government has done is cut $2.9 million worth of support for your groups, and then they've ordered the municipalities to essentially take in $500,000 less revenue from you. So it costs the provincial government zero; it costs the municipalities $500,000. I don't want to get you in the middle of a political argument here, but it's essentially downloading on to the municipalities. The government gives you the gift and then asks the property taxpayers to pay for it.

I point that out because we're supportive of encouraging the arts community. Quite apart from the cultural advantages, it is a tremendous economic opportunity for us. You drive through Rochester and Syracuse and you see tours coming to Toronto — not to New York City but to Toronto — for the theatre. I appreciate that it's a terrific tourism attraction.

I would just caution us to recognize what the government is doing here. As I say, they're essentially saying to municipalities, "We're ordering you to take $500,000 less revenue." We're taking $500,000 less revenue from you so we can give the cultural community a "gift" paid for by the property taxpayers. That doesn't take away from our support, but as you are recognizing who to thank, I would be going to the mayors and saying: "Thank you very much. The government has ordered you to do this, and we appreciate it." The municipalities have two choices: They cut services or they put the tax on to some other property taxpayer. So I'm supportive of the direction, but I think when we are commending somebody, that's probably who, in the end, you might want to take a moment to thank.

I just want to be sure I understand your concern, in your last point, about the implications for the opera house.

Ms Fraser: The opera company is a not-for-profit, charitable organization that is planning to build the opera house, which will have more than 1,000 seats. From my understanding of reading the bill, when we're describing large commercial theatres, the opera company is not a commercial operation; it is a not-for-profit, charitable organization. But it is going to have a theatre space that will be larger than the 1,000-seat cutoff. That's why I wondered how something like that would fit into this legislation.

Mr Phillips: As I read the amendment, the intent is that in Metropolitan Toronto there will be some special consideration for theatre. You don't think this would catch the opera house, then?

Ms Fraser: I don't think it does at the moment.

Mr Phillips: Has your group expressed any view on treating Metro Toronto differently than you would treat the Grand Theatre in London?

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Ms Fraser: No. I'm speaking just strictly from Toronto because that's my mandate.

Mr Phillips: I see.

Ms Fraser: What I should say is that the difference between the opera company and the hummingbird is that the opera company does produce its own work. so you have those large theatres like the hummingbird which are hosts and presenters, but the opera company, when it has its own venue, will be producing its own work. That's where the difference is.

Mr Phillips: This is a politician's dream, actually: to get a lot of pats on the back and have someone else pay for it. In this particular case, the provincial government will get lots of pats on the back from organizations like yours and then have the costs borne by the property taxpayer. Now, there's only one taxpayer. It's just, who do you pat on the back when you thank them? I appreciated your presentation. I thought it was very helpful for us.

Mr Pouliot: Thank you, Madame Fraser. Welcome. In Luxembourg, they say la culture est dans votre nature. If it were in the theatre, this kind of displaced theme of the government, those conjurers of illusion — you see, one hand takes $2.9 million, guts the soul, from those who can least carry the burden, and then this kind of cheap theatre has somebody else picking up the bill. In this shell game, some of us believe that they are experiencing remorse and that they're giving the money back. But there is no such thing with this sorry lot. They're not inclined that way. The philosophy with them is that when things go bad financially, you will be expendable, you may be the first one to suffer; but when things go good, you will be the last one to benefit.

I read your page 39 with a great deal of interest. Thank you for your reference. If we're to develop the theme, it

takes on extraordinary proportions, it lives, it is vibrant; yes, the third mecca of theatre in the world.

Ms Fraser: It's quite something.

Mr Pouliot: Your right: The caravan of people gather from all places to see live theatre in Toronto. The multiplier is unknown. We don't know how much is being spent in terms of accommodation, in terms of restaurants.

Ms Fraser: Certainly Tourism Toronto has all those facts. We know that visitors are returning an average of 17 times to Toronto. We know they indicate that they go to live theatre more than to our sports teams or other attractions in the city, so it is a huge draw.

Mr Pouliot: You mentioned a subclass. I need your help. I was left with the impression that a subclass will afford you an opportunity to reduce your tax burden.

Ms Fraser: I thought that's what was indicated for the commercial theatres. That's what I understood from my reading of the bill, that there would be a subclass for large commercial theatres.

Mr Pouliot: I see. Again, au contraire. For us, a subclass means an opportunity for the municipality to go and get what they're losing under other provisions of the bill. So we have a different opinion of subclasses.

On a positive note, I thank you for mentioning democratic theatre, those who have less, if you wish, whose brochure is not that well-bound or glossy but who mean so very well. They will benefit because they are, for the most part, non-profit; they invite fewer than 1,000 people, and are therefore of moderate means. I'm happy you mentioned that. They hope for a debt of gratitude, and in this case with the government, yes. Isabel Bassett — not singlehandedly; there were others, and it wouldn't be fair to the others. But she certainly came to the forefront to represent those people, and today, not so ironically, she is the Minister of Culture. I don't think the government could have been more judicious in their appointment of a person at this time to be the Minister of Culture. I was delighted with the announcement.

On Bill 149, how significant will the few thousand dollars you won't have to pay be?

Ms Fraser: For some of the not-for-profit theatres? It's hard to know. Each theatre will have to make up its mind about how they will use that adjustment in the funding. What I find is that most of our theatres tend to put all their resources into production, so it may mean they can do an extra production in the year; it may mean they could do better materials, like you said; it may mean they can bump up the production qualities of a show. In any of those cases, particularly if they decide they have the resources to do another show, that could also perhaps mean some jobs, because it would mean that actors or a director or whatever would be hired for another show.

Theatres were downsized before downsizing became a buzzword that we all know. Theatres operate, for the most part, on a real bare-bones administration. I'm sure that at most of the not-for-profit theatres, at least the smaller ones, for at least three years their salaries have been frozen, not making a lot to start with. It'll be interesting to see.

Mr Grimmett: I want to congratulate you, Ms Fraser, for demonstrating the world-class nature of the Toronto theatre industry by bringing the magazine from California? It's a travel magazine?

Ms Fraser: Yes, it is. It's a travel and leisure magazine. I'm sorry that it's a year old. We had extra copies, and I just thought — if you wanted to do a piece on Toronto theatre, you couldn't have hired someone to do a better job.

Mr Grimmett: Exactly. I take it that the American market is very significant for Toronto.

Ms Fraser: Yes, it is. I attend a lot of media marketplaces, usually the ones hosted by the Canadian government, where we meet with about 100 travel journalists and try to generate stories. It's not hard to generate stories, to get them to come to Toronto and experience our theatres in all their forms.

Mr Grimmett: We've heard from presenters before you that the Toronto theatre industry is a breeding ground for more experienced people in the industry; that they move on from the smaller theatres to the larger theatres and sometimes into other media. I noticed in your comments that you mentioned dance. Could you comment on how big a proportion of the theatre business would be dance?

Ms Fraser: I guess probably about an eighth of our members are dance companies, but it's the whole range: It's the National Ballet, it's Toronto Dance Theatre, it's Canadian Children's Dance Theatre, Danny Grossman, Desrosiers, and then the feet at the fringe, the individual dance artists. It's a fair bit of work, but it's quite small in comparison to traditional theatre.

Mr Grimmett: Is it the same experience, where the younger, inexperienced dancers would go into the smaller theatres and gradually move up to the larger entities?

Ms Fraser: I'm not sure that dance works quite the same way, because I think it's more the styles of dance. You have the modern dance companies, the avant-garde dance companies, and then you have your classical ballet. I think if you're going into classical ballet, you would go to the National Ballet and you would work up to that from somewhere else rather than one of these modern dance companies; I don't think it quite transfers.

Mr Grimmett: You mentioned in your comments about Bill 149 a concern about the way it treats larger commercial operations. Are you aware that the government has proposed an amendment to Bill 149 that would allow the municipalities to reduce the payments in lieu if the larger commercial operations could demonstrate that they're providing benefit to the not-for-profit?

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Ms Fraser: That's what I thought it meant and that's why I said yes, I really support that, because of what I also said about it being such a huge risk to put up commercial productions, huge costs. Our commercial producers are competing with theatres in New York, for example, that are given a municipal theatre, with no taxes to pay. The cost to them to put it on and the ticket prices they're going to charge to be able to get it make it very

difficult for a commercial producer here in Toronto to try to get that property and put it here, because it's going to cost way more.

There's no question that they don't operate without each other. The commercial market was built on the success of the not-for-profit market that developed during the 1970. The first show that was hugely successful, a long-running musical, was Cats. In our industry, we talk about BC and AC, before Cats and after Cats, because that's when it got proven that Toronto had the market to have a long-running musical. At first there was a kind of uneasy relationship before not-for-profit theatre and commercial, but now there's a real understanding that it takes the two of them, because the big commercial theatres can and do drive the industry in that they can do the kind of promotion and marketing that the smaller theatres can't. We find that tourists, for example, will book the big-ticket shows, Phantom of the Opera, for example, months before they come. Our not-for-profit theatres tend to do three-week runs. So they book the long-running one; when they get to town, they find out what else is one and then they book their tickets for the other ones. We find that right through our operation at T.O.TIX. There is no question that there is a benefit to the not-for-profit theatres from the commercials.

The Chair: Thank you very much for an excellent presentation.

CITY OF MISSISSAUGA

The Chair: I call the corporation of the city of Mississauga, Mayor Hazel McCallion.

Mrs Hazel McCallion: Mr Chairman, thank you very much for the opportunity. I've been down to many standing committees. I don't know how successful they are, but I'm here again.

The Chair: Mayor McCallion, for the record, will you please identify the gentleman who's sitting with you as well?

Mrs McCallion: Jeff Jackson, who is in charge of finance for the city of Mississauga. We also have our commissioner of finance and corporate services here. We have our solicitor here as well.

The Chair: Would you like to have them come forward?

Mrs McCallion: Yes. That would be great.

I believe a detailed brief has been distributed to you on the items I'm going to be addressing today. The first statement I would like to make is that the figures the province is handing out indicate that it's going to be revenue-neutral, with no tax increase. I can assure you, until Bill 149 is passed, I don't know how anybody could make such a statement. In Bill 149, there is any number of items that seriously affect the taxes of the municipality and would clearly have an impact on any revenue-neutral figuring that might be done.

First of all, the city of Mississauga is always concerned about regulations. We like everything in the legislation, and then we know where we're going. When it comes to passing the legislation and the regulations, we get some shocks when the regulations come down. Legislation without regulations being right up front is very dangerous. I give you development levies as an example, where we got the legislation and then a short while after that, we found out there was something that would been included in the regulations that would have had serious impact on the success we had with the development levies.

Second, another great belief we have is that democracy, we hope, is still alive in the province of Ontario. We're absolutely amazed that the legislation leaves in — I thought we were going through a process of disentanglement, but when you read this page, "Provincial/Municipal Roles and Responsibilities," you'll notice it is very heavy on the side of the province and the upper tier making decisions, leaving very little for the area municipalities to make decisions about. There's a perfect example which illustrates our grave concern, that you wonder whether it's worth running for office at the local level because of all this.

In the region of Peel, we strongly oppose the upper tier setting the tax rates. I always felt I was elected to tax the people. I've always felt that for the 30 years I've been in politics, but I'm discovering that really I'm not. In the region of Peel, the city of Mississauga does not have the majority of votes — we only have 49% — but we pick up 70% of the bill of the operation of the region of Peel. We are strongly objecting to that. If in other regions they are prepared to do that, that's entirely up to them, but in the region of Peel we are not at all happy. We've registered that seriously with our MPPs. It is, in my opinion, not accountability that I think we all should have as elected people. It would be like the province of Quebec setting the sales tax for the province of Ontario.

It says delegation can occur at the regional level. That's interesting, but when you don't have a majority of the vote, how can you get it? I'm sure the elected people from Brampton and Caledon would be having a ball setting the tax rates on my massive industrial-commercial assessment, because they don't have as much as we have. Caledon has very little. On every major issue at the region of Peel, we are outvoted. They get the courthouse, they get the police station, and we get the Britannia landfill site in Mississauga. So we've got past history to prove it doesn't work, and it's not democratic; it's definitely against democracy.

Farm land awaiting development is another very serious issue. We have some very large farmers in Mississauga. They're called developers. They don't do much farming except that they try to hire people to go out and farm to try to beat the tax situation. Bill 149 — it hasn't been decided yet how it's going to be done, but they've come up with three classifications of farm land. The land receiving beneficial farm assessment need not be used in compliance with the municipal zoning bylaws, so what the province is saying is: "Your land is contrary to the zoning bylaw, but don't worry. You don't have to pay the taxes based on the zoning bylaw" — in other words, providing

benefit to those acting contrary to municipal law. That's very evident.

The criteria for the third building subclass should be changed. They've come up with three classes of farm land to meeting prerequisites for a building permit, as land immediately ready for development. They could get ready for development, not apply for their building permit, and sit with it for years, enjoying the benefit of the classification. As you know, developers only develop when the market is there. They're smart, smarter, often, than government is. They would just sit with the land fully ready for permit.

Lower-tier municipalities should set the percentage reductions of tax rates for the subclasses that the province has created. Currently the upper tier is to set it, with no provision for delegation in this case. On the setting of the tax rates, they say it can be delegated, but only if you have control of the vote.

Then it comes to vacant land. Properties and farm land awaiting development may receive less favourable tax treatment than vacant land. Percentage reductions for farm land awaiting development subclasses should be brought in line with other subclass reductions. I wonder at times if those who prepare these recommendations really understand the process that we in the municipalities go through.

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Payment in lieu of taxes: The minister has the authority to set payments in lieu of taxes. As you know, we have the Mississauga international airport in our city and we have a very large Canada Post operation. Over the years, we have had grants in lieu, and we wonder at times whether all these buildings should not be assessed according to the assessment. At the present time we collect $12 million from the airport. We don't know how the minister is going to cause us to share the grants in lieu, with whom, when and how much. As you know, they're assuming 50% of the education, and we don't if they're going to say, "We'd like part of your grants in lieu for education." We don't share it with education now. We don't share it with the region. It remains with the city. Is there going to be any consistency of application, and where is the dispute resolution mechanism if we don't agree? There will be ongoing uncertainty, and is it going to change from year to year by regulation?

There's one thing the municipalities in this country have done well. They've managed their affairs much better than either the federal or provincial government have. But the things that are coming down the pike are leaving us in a complete state of confusion. We don't know where we're going. I tell my taxpayers, "I have no idea what your tax rate is going to be in 1998." There are some people who will promise a tax freeze when they haven't the slightest idea what is coming down the pike, but it sounds good, and you can make those statements in the hope of getting elected. Then, when you're elected and you send the tax bill out: "Oh, well, I didn't know. I'm only one member." I've got nine members of council. I guess I could make the statement and say: "The other eight members voted against me, so it's not my fault. I promised you a tax freeze, but I haven't got a hope of implementing it."

Interim financing: Has the province figured out how we're going to interim finance the municipality? I'm sure they must have hired some very capable accounting firm to tell us we're going to interim finance, because we don't know.

Bill 149 should be amended to include the alternative of 50% of the rate structure that would have been levied in the preceding year. That's the way we do it now, but somebody came up with some weird idea that we're going to change it this year. Quite honestly, at a meeting of the GTA mayors and regional chairs and the large urban mayors in the province on Friday — there's something happening that bothers me considerably as a politician who has served the people for 30 years. The suggestion is that because of the confusion and the mess municipalities are in because of the unrealistic legislation — we can't strike. I wish we could, like the teachers, and could really bring pressure to bear. I don't know how we as mayors or how municipalities can strike. It seems the only way things can be changed. When you hear mayors sit around the table and say: "The only way to deal with this is that we'll collect the money for the province, we'll take care of our regular needs, and we'll send whatever is left over to the province in 1998" — unfortunate, isn't it, that we would even have such a suggestion come forward?

There have to be changes to Bill 149, and we want to know what the regulations are. We won't know where we're going until we know the regulations. I don't know, folks. Today is October 21, 1997, and all this is going to come into effect January 1, 1998. In the past, we have had our budgets set now for the next year. We don't this year, and we can't set them.

Let me read to you the final figures we were promised on October 6, the frontispiece that was attached to the figures that came out on October 6. Mr Leach said, "That's it." Mr Gilchrist said: "That's it, folks, you'll have everything. It will be revenue-neutral, and you won't have to increase your taxes."

"All figures are estimates based on minister's most up-to-date information. Municipalities will be given further data as it is developed. Transfer responsibilities and related changes may require the approval of the Legislature where applicable."

If anybody calls that final, they've got to be on cloud nine. That's the problem we're up against. I don't know how we can get the message across to the government that we're in a mess in the municipalities of this province, and find a mayor, other than one, who will tell you that we know where we're going. Find a mayor.

The minister is quite capable of quoting in the Legislature that a candidate running in Ottawa-Carleton says they're going to have no increase in taxes. Running to get elected. Sounds great. Another one says they're going to freeze the taxes.

We don't even know how the downloading and the pooling in the GTA is going to affect us, because there are no final figures on it. In the 30 years I've been in local

government I have never been so confused and so frustrated. Going into an election on November 10: There are no issues out there, because nobody knows what's going on. Ladies and gentlemen, I say to you that it's time this mess got sorted out.

I don't know what the purpose of this standing committee is, quite honestly. I hope somebody will take this issue seriously and give us the tools to do the job. There's no such thing as disentanglement; it is entanglement, and that page proves it. It proves it right there. The minister can decide this, sets the band for the variable mill rates. The unfortunate part is that he hasn't made the decisions. Ladies and gentlemen, it is a sad day for local government in Ontario.

The Chair: Thank you, Mayor McCallion. We have approximately 15 minutes left. If you'll take questions, I'll start with the government party, approximately five minutes each.

Mr Grimmett: Thank you for your presentation, your worship. I wonder if you could perhaps help me with the farm lands pending development issue. We have heard from people who you might say are from the development community — some of them are and some of them perhaps aren't — who are in a position where they have lands that would be treated by this legislation as pending development. Those people are telling us that this legislation is too harsh on them, that it does not allow them to develop the property significantly enough before they're hit with the higher level of tax that's imposed from being rezoned or being in a different type of zone. How would we try to deal with the two competing forces? On the one hand, people such as yourself are saying we're bringing the conversion to a different assessment at too late a stage, and then the development community is telling us that we're bringing it at too early a stage. Can you propose a compromise we might be able to work with?

Mrs McCallion: Jeff, do you want to answer?

Mr Jeff Jackson: Our understanding of the legislation is that it allows the upper-tier council to set the rate anywhere between a 0% benefit up to a 75% benefit. The way I read that is that a 75% benefit would be equivalent to what a bona fide farmer would be entitled to. I really can't see much difference in terms of your first stage.

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I think the task force looked at the issue last year, and they felt that once the subdivision approval was in place then it should merit a different banding. I think that's what the committee has done.

Really our concern was just in terms of the third stage. We felt that once it reached the building-permit stage it shouldn't have to wait for an actual permit to be issued. Our general sense was that the land at that point in time was worth more money and the benefit conferred on the developer should be that much less.

Mr Grimmett: Just to clarify your point, you're comfortable with the first two proposed stages.

Mr Jackson: Yes, I think so. It's the third one that we have some difficulty with.

Mr Grimmett: I see. What is your proposal on that one?

Mr Jackson: It is basically that it would be at the point where all the things are in place in a given municipality so that a permit can be issued; it's just that the developer hasn't said: "I want to build. Now give me some permits."

Mr Grimmett: Would that continue to have three stages, then, or would that be effectively reducing it to two?

Mr Jackson: No. Because there's a difference between being at the plan-of-subdivision stage and being at the stage for a building permit, you still need the three stages.

Mr Grimmett: The issue you raised about upper-tier powers, your worship, are you the only regional municipality that's in this situation where one area municipality is so dominant but does not have the number of seats on the region that represent its population?

Mrs McCallion: I believe so. The region of Durham would be the only other one, in which Oshawa would be in the same situation. They have the bulk of the industrial and commercial assessment but do not have a majority vote.

Mr Grimmett: But I understand you are pursuing that governance issue in another forum, is that correct?

Mrs McCallion: Pardon?

Mr Grimmett: Are you pursuing that governance issue in another forum? It's not really a Bill 149 issue.

Mrs McCallion: Yes, it is, as we understand it.

Mr Grimmett: Are you pursuing it in another forum?

Mrs McCallion: We are pursuing it with our MPPs. We've asked them to find a solution to it. I believe they are working on it.

On the farm assessment, I'd like to go back to your question. The minister, in my opinion, sought the advice of the city of Mississauga on the farm issue. We tried to be fair. Our staff was very much involved; Jeff and my assessment commissioner and Mr Munden. The city manager came down and spent hours with the staff in the revenue department to give them a thorough understanding of the farm situation, because we are seriously affected and so is Oakville and other areas in the GTA.

We're willing to work with the government to give them the understanding they need. They learned an awful lot, through the development levy process, that the provincial staff didn't understand. Again, we've spent months. We've had most of our staff this year working on bills and all this stuff instead of doing what we should be doing — well, we are doing it, because we've got all kinds of development in Mississauga this year. We're very fortunate.

Mr Grimmett: We certainly appreciate your coming in and sharing your thoughts with us. That's really what the committee process is for.

Mrs McCallion: But I ask you folks: Let's get some answers. I had the vice-presidents of the Bay, Dylex and Oshawa Wholesale in to see me three weeks ago saying, "What do you think the tax bill is going to look like in 1998?" I said, "I haven't the slightest idea." They said,

"Well, Madam Mayor, we have to plan our budget for 1998 based on what type of a tax bill we're going to get." "Good luck," I said, "We're in the same boat, folks; we don't know either." What a state of affairs to be in. It's a terrible state of affairs.

Mr Phillips: I have an observation and then a question. I appreciate your comments, Mayor. I think we all recognize you're the dean of the mayors of Ontario, so we value your input.

I think the government is doing it deliberately. I think they know what the impact will be; they know there will be an uprising if people found out. This is a well-planned strategy to simply let it happen. In April you'll be forced to send out your tax bills, and then people will know what the impact is. I don't think there's any question at all that that's the plan of the government. They've refused to give us any impact studies at all, and we are helpless to force them to. In fact, we passed a resolution in the House asking them to release the studies, and they refused to. I think it's a deliberate move to avoid people storming Queen's Park. It's a tactic of hide it until the end and then, frankly, hope they can blame you, because there will be the downloading at the same time, there will be reassessment at the same time, and the taxpayer will not know who to turn to.

My question is to give us some help on various issues in here. Regarding the elimination of the business occupancy tax, every municipality we have talked to has said, "We are going to put it back on to our commercial and industrial realty tax." As a matter of fact, I think the bill requires you to put the business occupancy tax on your interim tax bill. There is a belief by most — I think all — that the elimination of the business occupancy tax, putting it on realty tax, will likely hurt small business. So there is a proposal in the bill to have different bands available for municipalities to tax at different rates based on the assessed value of the property. In other words, if it's assessed at, hypothetically, $500,000, you can give a lower tax rate; then from $500,000 to $2 million, a different tax rate; and above $2 million, another tax rate. My observation is that that's not necessarily a reduced tax for small business; it's a reduced tax for owners of small property.

Has your council looked at the issue of the elimination of the business occupancy tax and then the proposal by the government to have these three bands of taxes available based on the value of the property? Is that something you're supportive of or have concerns about?

Mrs McCallion: Jeff, do you want to comment on this? We've turned all this over to the staff to try to figure out to advise us.

Mr Phillips: I appreciate that. I can understand why.

Mr Jackson: We were actually quite astounded when we looked at the legislation, because, going back to the original bill, we were under the understanding that the province wanted to give us the ability to set taxes and to determine who in our municipality we wanted the tax burden to rest upon. Yet when you read all the legislation, as you point out, Mr Phillips, it would appear that we're forcing the business occupancy tax to be rolled back on to the commercial and industrial taxpayer. That may be a good thing and that may be a bad thing; I don't know. I think our council at this point in time hasn't dealt with the issue yet, because we wanted to see the impact on specific taxpayers before we could make a decision as to whether it was good or bad to do this.

I think you also have to look at given municipalities and say, "Are we competitive with other municipalities?" Until you start looking at the competitive aspect, it's very difficult for anybody to say, "We want to tax them" or "We don't." I don't think it's any different in your world, where you have corporate income tax and you look at Michigan or New York state and say, "How are we relative to them?" We do exactly the same thing in municipalities. I think that's probably the best answer I can give you.

Mr Phillips: Fine. The major tax issue is not in Bill 149, it's in Bill 160, and that is the authority for the Minister of Finance to set, by minister's regulation, the property tax on education. For you, that will be probably 53% or 54% of your business property tax and probably 26% or 27% of your residential property tax, by regulation. If you've read the bill, the minister has almost unfettered authority to set it within municipalities, within parts of municipalities, by subclass etc. Also there will be a single residential property tax rate on single-family and multiple residences for the education portion, which I believe shifts, province-wide, about $300 million of property tax off apartments on to single-family residences. That may be what the government wants.

Has the council any advice for us on that? I realize it's in Bill 160, but this committee is trying to wrap up the property tax issue. I know that many councils have objected to school boards setting the mill rate, but at least that was done in public, and at least if you had an objection you could at least show up there. This is going to be done in the cabinet room, and you won't know what it is until the Gazette comes out on a Saturday and you say, "Oh, they set the property tax." A third of Mississauga's property tax will be set down the hall in the cabinet room. Has the council debated that at all and got any advice for us?

1400

Mrs McCallion: No. We're confused.

Mr Jackson: Could I just ask a question to answer a question? We're really unclear in terms of how Bill 149 relates to Bill 160. When the province sets its single tax rate, do any of these exemptions that we spoke to earlier, like property waiting to be built up on or any of the vacant property, does that apply to the single education tax rate? We don't know.

Mr Pouliot: Your worship, gentlemen, I'm at a bit of a loss. I know about your success story — it's nothing short of that — in Mississauga over the years by way of good promotion and some timely increased assessment. I know of your ability, Mayor, to live within your means. With you, it goes beyond the written word. It's something you have practised very, very successfully.

I never thought the day would come where, two months before the largest exercise in devolution — well, dumping,

if you wish — transfer of new responsibilities to the municipalities, I would — and correct me if I'm wrong, but you're anxious because you don't know. It's two months, and the clock is ticking. This is a massive endeavour, and you have to convey the good news to people you represent, and you sense that the devil might be in the regulations, that these people will dim the lights and scare one another, but more importantly scare us all, by saying, "This is the regulation." They'll dig into their bag of snakes, nothing short of that. I used to think otherwise, but I don't any more.

It's two months before you have to start notifying, because the flow must come in, you must pay your employees, you must supply those services, and you will have only the interim tax levies, last year's figure, inclusive of the BOT, to go on. You will have your assessment figures coming in some time, no sooner than April. You have a different fiscal year. We're already four months into the fiscal year.

Then the ministry — hardworking, well-meaning people — estimate, and these are the government's figures, 500,000 appeals across the province. Can you imagine how long it will take just to address them? It will take 18 months. As your year gets condensed — and their fiscal year here starts on April 1 — the final tax levy will include downloading, the cost of which you still don't quite know. Do you know which funds you have access to and what formula or criteria will make up for the shortfalls? We're used to bills; there's still hope. Yet bill after bill now — because nothing works in isolation here. The revolution marches on. This is all about making the trains run on time. Let's make no mistake about that.

People don't know two months before. What a mess we're in. I just came back from the north, your worship, and they've got these packages, all the services. They don't know if it's upper-tier, if it's their own; all they know is that the time will come when they have to pay. The minister and this lot here are saying, "Don't worry, be happy." How will you address something you don't know in a period of only two months?

Mrs McCallion: We can't address it. In fact, I spoke to 300 farmers the other night in Halton and, as the Chairman said, they're going around in circles. I spoke to the Association of Ontario Road Superintendents in Hanover Friday night. There were 300 to 400 people there. They're all confused. Nobody knows where we're going. The rural people don't know; nobody knows really where we're going.

This is a pamphlet that's going to be distributed throughout Ontario to municipalities. Hey, Mike, show us the real numbers so we can start budgeting. I think it's sad we're spending taxpayers' money to try to get a message across. Secondly, some of this stuff that's coming out — this province has always been proud of the fact that municipalities were not allowed to bonus to get industry or commerce. I have been asked many times, "Do you believe in bonusing?" I said, "No way." If you have bonusing, you're not efficient and you're not well managed. I've got to sell my municipality on being well managed, efficiency and creativity, because I can't give an industry moving in any bonusing.

The way that we're going to be mixed up we'll never know. There will be bonusing all over the place and especially in the greater Toronto area, because everybody will be doing things differently, and as a result, it will bring about a bonusing situation that has never existed in this province.

I get companies coming from the United States saying, "Madam Mayor, can you give us a tax break?" I say: "No, I can't give you a tax break at all, we're not allowed, but I'll give you efficiency and good management, and your tax dollar will be spent well. If I bonus you, then I have to bonus the next company moving in, and when does it end?"

Mr Pouliot: It's obvious that there's a degree of incompetence — let's call it what it is — acute incompetence. The government is in a rush, and when you're in a rush you get tired and you make mistakes. If you had a message — and you are positive, your worship, you are experienced — what would you say, in a few words, to the members of the brigade, I mean the government of the day? What would you tell them in view of what's about to happen?

Mrs McCallion: We gave a message to the government ages ago. I, by the way, want to give credit to this government that finally they have proceeded to sort out the assessment in this province, which no other government had the backbone to do, and I want to say that. The point is that they should have gone ahead with reassessment at current value before they threw us into all this chaos with all these regulations and changes, because there are going to be tax increases in 1998, even in Mississauga where we're at 1980, and there are going to be tax decreases in Mississauga, so anybody who stands on a public platform and says they're either going to freeze the taxes or no tax increase is on cloud nine.

The Chair: Thank you, Mayor McCallion. We went a little bit overtime, but I very much appreciate your coming here. Thank you for your advice and information.

Mrs McCallion: I appreciate the time you have given us. Please make some changes and make them quickly.

1410

URBAN DEVELOPMENT INSTITUTE

The Chair: Could representatives from the Urban Development Institute please come forward. You have half an hour to use as you wish. If you would like to leave time for questions, I'll divide it evenly among the three parties. Would you please state your name for the record.

Mr Stephen Kaiser: My name is Stephen Kaiser, and I am president of the Urban Development Institute. Our organization, by way of its membership, represents a large portion of the development industry in Ontario.

What I'd like to do on an informal basis, if we could, is walk you through the brief that we have today, and then I'll get into the presentation, if the members would refer to the brief. Inside the cover we have a description of the

organization, and I'm sure most of you are aware of the Urban Development Institute.

Under section 1 is a technical paper, so to speak, that deals with the new legislation, Bill 149, and the implication of land awaiting development.

Under section 2 is a brief that we produced in March 1996 titled The Assessment of Farmland in Ontario. I'll describe the situations regarding the brief in a moment, but it's important to note that that brief at the time was endorsed by the Canadian Property Tax Association Inc, the Ontario Federation of Agriculture, the Canadian Institute of Public Real Estate Companies, the Greater Toronto Home Builders' Association and also by the two opposition parties, the Liberals through Lyn McLeod and Mr Gerretsen, and the NDP represented through Marilyn Churley at that time.

Section 3 is some tables and graphs that I can explain to you quickly, and they were put together quickly. We tried to be as accurate as we could. The information was gathered from the regions. You'll see snapshots there of land available through the regions of Durham, Halton, Metro, Peel and York combined with the regions of Hamilton, Waterloo and Niagara. The first page looks at basically residential land that is draft approved in those areas to a combined acreage of over 11,000 acres. The next page looks at residential land that is registered and approved in draft plans, again over the same regions, to a total of over 10,000 acres. The next page looks at industrial land, and I must say that the figures we were able to obtain do not paint as accurate a picture as the other two pages you have seen, but basically in terms of industrial land, both vacant and with designation, across again the same areas, the same regions, there is over 41,000 acres of land involved in what we're discussing today.

We also wanted to give a snapshot of taxes, fees and charges paid at the end of the process, because what we're talking about today is kind of a snapshot, a moment in time, but if you're looking at the linear process of land development, it's important that you're cognizant of those taxes, fees and charges that are paid relatively close to the end of the process and to when the key goes in the door of a new residence, of a new industrial building or a new commercial plaza.

You'll see on the first chart we looked at the town house development in the region of York and found that in terms of the town house development, taxes, fees and charges paid to the municipal sector, combined on a per acre basis — this is at the end of the process, and they're spelled out — is over $262,000. The same again dealing on a commercial basis: We looked at a project in Brampton, and that commercial project worked out to a taxation total running somewhere in the area of $59,000 an acre. We did the same over two industrial projects, one in Brampton, the other in Mississauga, and you'll see on the next page that combined taxes again come out somewhere close to $70,000 in both cases.

Section 4 are two recent letters that have gone from our office to the Premier's office, and I'd like to read the last paragraph of the letter of October 2, which says:

"Last week your government released a draft regulation to the Fair Municipal Finance Act (No. 2), Bill 149, that will potentially raise taxes on draft-approved development land over 2500% and the same land, once it is registered, over 4000%. Under the provisions of this regulation, a 100-acre draft-plan-approved industrial subdivision would potentially pay, over a 10-year time frame, in excess of $1 million in additional property taxes."

Since that letter went out and we have had a little more time to look at the figures and analyse them and meet with the Ministry of Finance — my figures aren't quite correct — we have now found the increase to be somewhere over 7000%.

At the next tab you'll see some letters of support from the municipal sector, and on the final tab you'll see letters of concern from the development industry across Ontario.

What I'd like to do is just set the stage for you. This is a complicated issue to understand, and certainly I'm at an advantage, having been immersed in it for almost two years now, but I'll take you through a brief history if I could.

The situation arose or became apparent to us in the fall of 1995, and at that time we met with both the Ministry of Finance and the Ministry of Municipal Affairs and Housing and outlined the problem. The problem at that time in Ontario was basically isolated to one regional assessment area, that being the regional assessment area that encompassed Mississauga, Oakville and areas of Halton and Brampton. What was happening there, as a result of a recent OMB ruling that was then appealed to the higher courts and left in place, was land was assessed by the regional assessment commissioner, and as a result of this ruling called the Amoco decision, that land was assessed based on zoning as opposed to use. What we saw was that lands that continued to be farm, that were moving through the process, had huge tax increases. I believe you'll hear in the next couple of days from some of those people who have land in Mississauga, and I'll leave it to them to more relate the actualities of what happened on the ground there.

But it was no doubt a problem, and we sought to find a resolution to the problem. In the spring of 1996 we brought forward the brief that I alluded to under section 2, and the groups that endorsed the brief, including the two opposition parties. At that time we were seeking an amendment to Bill 20, which was the Planning Act and was going through the same stage, the standing committee stage, at that time.

Because Bill 20 was a clause-by-clause revision of Bill 163, we needed three-party consent, and at the last minute, we lost the support of the government and that direction of trying to fix the problem we were facing was lost at that point, and the only alternative was in dealing with it through changes to the Assessment Act.

Since that time, we have been working with the government, meetings in finance. I don't know how many times I have been in the minister's boardroom and met and tried to discuss the situation and help the government to understand the lay of the land and what happens out in the

development industry itself, as it is a very complicated industry, as you know.

One month ago we had the revisions to Bill 149 released — that deal specifically with this section — and at that point in time, an issue that was localized to the area of Mississauga, Oakville, Halton became an issue for the industry across the province. I can tell you from answering the phone and the letters coming into our office that the industry is waking up. Again, this only happened about a month ago. There is a huge concern out there from the industry and from the municipal sector with regard to the direction of the government.

At this time I'm not going to read every letter we have, but I think it's important to set the stage so that some of these people who couldn't make it to committee are on record in terms of pieces or parts of what they had to say in their letters, and that's what I intend to do now.

John Cole, the mayor of the town of Newmarket, in a letter to the Honourable Al Leach dated September 17 wrote:

"To attract new business and industry to our municipality, we require a good inventory of developable lands. Developers have relied on agricultural provisions in existing legislation to keep their land investments affordable and feasible in the face of lengthy development approval processes. As it stands, vacant lands are being taxed at rates nearing $10,000 per acre. This represents an untenable financial burden on developers. They will either lose or be driven away from their investments and in turn, future growth and industry for Newmarket will be lost. Larger developers who are able to cope with the new rates on their existing lands will be discouraged from bringing new lands forward. In fact, Newmarket's industrial land inventory is already dangerously low.... I would respectfully request your intervention to ensure that any assessment changes contemplated...do not put Newmarket's future economic health in jeopardy."

Bill Bell, mayor of the town of Richmond Hill, in a letter to Al Palladini dated October 14, stated:

"It is one thing to eliminate some of the inequities in the current system, but it is quite another to kill growth and development in the supposed name of equity by overburdening owners with taxes. I fear that this is the course your government, perhaps unwittingly, is embarking upon.... We are prepared to wait to derive our tax revenues from actual construction and buildings. I think that our position is wholly consistent with the government's stated goal of stimulating economic development and fostering the climate for job growth. The proposed changes, in my opinion, are anything but."

I had a quote here from Mayor Robertson, but I understand he is appearing before you tomorrow and I'll leave that.

Maurice Beaudry, manager of St Thomas Economic Development Corp, in a letter to the Urban Development Institute dated October 14, and I think this is unique because the city of St Thomas is actually the industrial developer by way of an arm's-length company in St Thomas and has been for some time, and it's important that these facts get on the table:

"One of the main successes for the city of St Thomas to attract industries is by 'land banking.' This practice has gone on since the 1950s. We service or semi-service some of the land. In the meantime, this allows us to be ready on demand for a new industrial client.

"By servicing in part or all in advance, it makes it possible to sell the land at very reasonable prices in the current market when in fact the services were put in some 10 to 15 years earlier at a much lower dollar value. This advantage that we have may be mitigated if we had to pay property tax on the developed or semi-developed land zoned for industrial use, but continues to be used for agriculture.... I trust you'll be successful in convincing the government that no matter who owns the land, so long as it is used agricultural purposes it will continue to have farm assessment."

1420

Don Cousens, mayor of the town of Markham, in a letter to the Honourable Al Leach dated October 9, 1997, wrote:

"The goal of our municipality remains orderly development. Bill 149 will distort the planning process. It is shortsighted to overtax today and face unwanted consequences tomorrow.

"Much of this new tax will be uncollectable and will need to be written off in subsequent years, compounding our budgeting difficulties.

"Smaller land owners will not be capable of absorbing these new rates. Existing industries will abandon their expansion plans and simply leave town when they outgrow their current facilities. The price of undeveloped school sites within a developer's inventory will rise accordingly, as will land being serviced for residential uses. All of these costs will eventually be passed on to our residents through higher-priced housing."

Lorna Jackson, mayor of the city of Vaughan, in a letter to the Honourable Al Leach dated October 10, wrote:

"As you are aware, the planning and development process takes place over several years. Significant amounts of farmland have been acquired for the purposes of long-term planning and future development under the assumption that the current approach to the assessment of farmlands awaiting development would not change, that is, the land would continue to be assessed as farm land as long as it continues to be farmed.

"Vaughan has a concern that inventories of serviced lands and the planning process may be adversely affected under the proposed legislation."

Roger Greenberg, president of Minto Developments in Ottawa, in a letter to the Honourable Ernie Eves dated October 16, stated:

"As you might suspect, we are gravely concerned with the government's initiatives contained in Bill 149 (Part 2) and the regulations thereunder of allowing the taxation of draft-approved, final-approved and building-permit-issued land, through delegation to municipalities within certain ranges on the basis of a percentage of its ultimate value as

developed land prior to any sales taking place. This amounts to an annual capital gains tax and a doubling up of provincial capital tax on developers who are supplying Ontario's housing needs and industrial lands before they've received any revenues to pay those taxes in the form of sales of homes to families or sites to industry. These numbers can be quite punitive. Developers with existing holdings can't avoid these increased taxes and cannot pass them through. This would have a significantly detrimental effect on not only the development industry, but indeed on the economy of the province."

There's a letter of support for our position from Mark Basciano, president of the Niagara Home Builders' Association. I'll skip through some of these.

Dale Taras, regional vice-president, central and western Canada, Imperial Life Financial, in a letter to Premier Harris dated October 16 noted that: "Adding onerous taxes on land is detrimental to creating jobs and only creates a delay in the production of new serviced land, which translates into added costs for home owners and business in general."

I think the point is made. There are a couple other letters that I'd like to get on the record. One is from John Latimer, president of Monarch Development Corp, a letter to Premier Harris dated October 9, 1997, and he ends the letter by saying: "We respectfully request that you keep the current system of taxation on land for development as is. If it ain't broke, don't fix it." That's a company that does business throughout North America.

Finally, I'll leave with one letter that we received today, faxed to our office, and it's addressed to the Honourable Ernie Eves. It's from the Economic Development Council of Ontario Inc. I'll read the letter in whole and I'll leave a copy of this letter with you. I just received it now:

"I am writing you regarding your government's plans to introduce legislation known as the Fair Municipal Finance Act (No. 2), or Bill 149. The Economic Development Council of Ontario wishes to convey our concerns with respect to this proposed legislation.

"EDCO feels that the proposed act is regressive and does not convey the message that Ontario is open and ready to do business. The development community will cease to bring lands into development due to the fact that the taxable assessment will be an unnecessary burden on the cost of conducting business.

"The Ontario economy relies heavily on the success of the development industry to bring new housing and commercial/industrial properties on stream to create wealth and employment. This proposed legislation will discourage developers from making investments in creating new lands for development, a situation which is not healthy for all Ontarians.

"EDCO respectfully requests that you intervene immediately to bring forth amendment to this legislation so that these assessment changes do not negatively affect the future economic prosperity of the province of Ontario."

It's signed by Greg Borduas, who's the president of EDCO this year.

I was hoping there would be time for questions and comments, so I will not read any more letters into the record. I would welcome any questions in regard to my presentation.

The Chair: Thank you very much. We have approximately four minutes per caucus, staring with the NDP caucus.

Mr Pouliot: What a testimony. Wow. I was going to ask you to stop the torture. This is a litany of lament, a litany of competitive sameness. It spares no one. I see that Mr Cousens — it's almost as if the government is eating their young. This is terrible.

If I were to post a sign after listening to what you said, it may be "Ontario is closed for business." A cynic would ask, "How do you like your Ontario now?" Because of your testimony bringing forward the collective concern of all those people — to be somewhat fair, I don't think the government intends that. This is contrary to the manifesto, the mantra. It is intended that developers would be helped. Friends are people you treat a little better, not a little worse. You don't take them for granted. I prefer to see this as an oversight. Your timing could not have been better; there is still time.

It's evident that you see this as a deterrent to development. People will say, as the facilities become dated, as options are to be contemplated: "I cannot afford it. Maybe it's better elsewhere." Your point is well taken. I know this will penetrate, in terms of the minister and the parliamentary assistant, and they will make the necessary amendment to Bill 149, unfortunately yet another example of the sloppy work that people who are in a hurry do. That train must leave the station on time, no matter what, and people are left picking up the wreckage.

Thank you for your presentation. I think you've scored a major point, and I for one would be surprised if the government did not change what you've addressed.

Mr Grimmett: I couldn't help thinking, as I sat here in the committee, how interesting it was to have your presentation, Mr Kaiser, juxtaposed back to back with that of Mayor Hazel McCallion. Did you get the opportunity to sit in on her presentation, sir?

Mr Kaiser: I did. It will probably become more interesting when you hear Mayor Robertson's presentation, who's mayor of a municipality adjoining Mississauga which put forward a bylaw to try to circumvent and ease the problems for the industry, and Mississauga came and appealed Brampton's bylaw.

1430

Mr Grimmett: It certainly is interesting to see the varying views on the issue of how a municipality can deal with development in its various stages. I think today we've heard two quite different views on how to deal with that.

My challenge to you would be that when you look at Bill 149, you can see that the government is trying to grapple with the issue of, at what stage does the assessment process kick in when property is in the development process? Especially those members who come from rural areas of the province hear all the time from our constituents, "What are you doing as a government to preserve

farm land?" as an example. That is another element that comes into this whole discussion.

You're here today and it's your opportunity to give us your advice. I would like to hear your advice on how we should deal with the competing interests, as stated by Mayor McCallion, who has said that from her perspective, she feels that when farm land is approaching development, the assessment process should kick in right at the time of zoning. In your brief, you indicate it should happen at the time of registration of the plan. What we as a government have to do is be fair; we have to recognize the competing interests. I'd ask you to comment on that and perhaps indicate if there's some middle ground.

Mr Kaiser: I would suggest that you go back to the Common Sense Revolution and the platform this government was elected on and reflect on the 216,000 new private sector jobs created in the province in the first seven months and rationalize that probably one third or better of those jobs come from this industry, directly or indirectly. Understand that this government is promoting Ontario as a place to do business, that you've cut taxes over 30 times, supposedly, in the mandate of this government.

I think you have to step back, look at this industry as a whole and ask one question: Is the industry as a whole, from start to finish, paying its fair share of tax, or is the industry not paying its fair share of tax and should we increase taxes to the development industry? You have to fundamentally answer that question. If the answer is that we are paying our fair share of tax — if not overtaxed — then you put forward a taxation policy that does not put a tax increase on this industry, that does not change the way developers from Windsor to Ottawa do business and bring land on stream.

I can tell you, from my phone ringing, from meetings I've been in, from the time of this bill being introduced to these changes a month ago to now, that literally hundreds of acres are being stopped in process due to the taxation implications of this bill — not out of protest, but out of concern that from the time you bring lands on stream to draft plan approval until you turn a key and someone walks into that new residence, business or industry, the development industry will not be able to survive in the course of A to B. That's the question.

Mr Phillips: I appreciate the presentation. I'm just trying to get a handle on the practical implications of this. On the one hand, I think the bill is designed to extract substantial extra revenue for municipalities from land approaching development, and as soon as the clock starts running, tax escalation occurs very quickly. If you're delayed at all, if an economic downturn occurs halfway through the process, you're probably dead in the water on development. You could be at the approved plan of subdivision stage, but you won't go ahead with actually building either the residences or the industry, because the economy has downturned but your property taxes are quite significant, I gather.

Some municipalities, certainly Mississauga, are feeling they've got costs they want to cover; the province is dumping costs on to them, and how are they going to handle it? Your industry is caught in what looks like a huge problem, particularly if you think you're going to go but you pause. You're dead, because the tax escalation will drive the costs up and probably bankrupt some.

What I hear you saying is that your industry is now saying the best thing they can do is just hold it as farm land and don't register plans, don't get approval of subdivision plans, because if this bill goes through, taxes begin to escalate very quickly. Is that what your members are saying to you?

Mr Kaiser: If these provisions stick, certainly the industry will conduct business in a radically different way than it did before. We mentioned Bill 20, the planning act, which supposedly opens the door, promotes the industry and the municipal sector to bring lands on stream that are designated and ready to go. This will first be punitive to those people who happen to be stuck in process, and in future will cause developers to bring land on stream in a very fragmented way.

As I said, I sat with a group that was going to draft-plan-approve 400 acres in the city of Vaughan last week. We sat in on their development meeting. They were literally discussing: "What are we going to do? What are the implications?" It makes good, prudent planning sense to actually draft-plan-approve that 400-acre piece, which is under multiple ownership, at the same time. Having said that, the piece that is to the north quadrant, for example, in terms of it being actually utilized and built upon, is much slower than the south quadrant of the 400-acre development, and it will take some time.

We have through these changes a trigger for a higher level of taxation at draft plan approval, and then at registration we have another one. Tomorrow you meet Phil King, a gentleman from Orlando, and he'll bring out the concern a company like theirs has, as an industrial developer that brings large segments of land at one time. Those lands would be sitting there with no money coming in and a huge tax burden on those lands. They sit there basically as an asset to the municipality, because it's the municipality that is out there, through their development people, trying to entice businesses to come and locate and build on that land.

The Chair: The time has expired. Thank you very much for presenting today.

Mr Kaiser: If there are any other questions, please feel free to contact my office.

1440

ST LAWRENCE AND HUDSON RAILWAY

CANADIAN PACIFIC RAILWAY

The Chair: Will representatives of the St Lawrence and Hudson Railway please come forward, Randy Marsh, manager of government and public affairs.

Mr Randy Marsh: Thank you very much. My name is Randy Marsh, and I am the manager of government and public affairs for the St Lawrence and Hudson Railway Co. I appear before you today representing both the St

Lawrence and Hudson and its parent corporation, the Canadian Pacific Railway Co. I would like to thank the standing committee for this opportunity to comment on Bill 149 today.

You are no doubt aware that great changes are taking place with railways in Canada. One significant change was the recent relocation of the headquarters for CP Rail — now once again called the Canadian Pacific Railway Co — from Montreal to Calgary. This change was brought about because of business imperatives. One significant component of this change was a recognition that a majority of the CPR's major customer partners are, to a great extent, located in western Canada.

Eastern Canada has posed a very difficult business challenge for railways for more than the last decade. The formation of the St Lawrence and Hudson Railway, a wholly owned subsidiary of the CPR, was very much a tangible reaction to this reality. Although we have made some strides of late in our eastern operations, we have a long way to go to ensure that we are able to sustain reinvestment in our operations in order to provide the modern, competitive transportation services that our customers expect and the Ontario economy requires.

For your information, the St Lawrence and Hudson operates on those Canadian lines formerly part of the CPR system essentially east and south of Woodbridge and Smiths Falls, in addition to the operations of the Delaware and Hudson Railway in the US northeast, reaching into the states of New York and Pennsylvania, and the southwestern Ontario gateway through Windsor-Detroit on through to Chicago. The CPR continues to operate within Ontario along its North Shore Ontario route, running from the west through Sudbury, and south, connecting to the St Lawrence and Hudson system at Woodbridge.

In Ontario, St Lawrence and Hudson operates on 2,295 kilometres of main line track and 996 kilometres of sidings and yard track, whereas the CPR operates on 3,310 kilometres of main line track and 668 kilometres of sidings and yard track. In support of its main line operations, the railway must also provide for ancillary infrastructure such as yards, maintenance shops for the repair of cars and locomotives, and administrative facilities. In Ontario, approximately 30 track-intensive yards are employed as vital components of the St Lawrence and Hudson/CPR transportation service.

Together, St Lawrence and Hudson and CPR employ approximately 4,500 men and women in Ontario, with a total annual payroll of over $240 million. St Lawrence and Hudson and CPR's total expenditure in Ontario in 1996, through employment, purchases, capital spending and taxes, was in excess of $830 million. In a more detailed fashion, appendix A to this submission summarizes the St Lawrence and Hudson and CPR's Ontario presence.

The vital role of the St Lawrence and Hudson and CPR in the Ontario economy consists not only of the railways' direct expenditures but also of the indirect contribution through business relationships with Ontario-based suppliers. The economic wellbeing of these suppliers is closely tied to the health and viability of the railways. They provide a diversity of goods and services to the railways ranging from petroleum products to rail cars to communications services. Appendix B to this submission sets out the top suppliers of goods and services in 1996, which amounted to $442.9 million in total purchases.

The St Lawrence and Hudson and CPR's economic presence and investment in Ontario have a large multiplier effect on the provincial economy by improving the international competitiveness of Ontario; by maintaining employment in businesses and services directly and indirectly related to the rail industry itself; and by helping Ontario municipalities attract new investments by businesses that depend on cost-competitive transportation services. Ontario government policy can dampen the railway's positive effect on the provincial and local economies through which it operates, as we believe it presently does, or it can provide an environment which supports the many jobs, both directly and indirectly, that result from continued railway operation investment.

The operation of a railway is a very capital-intensive endeavour, requiring constant large-sum investment in infrastructure and equipment to allow for continued, effective delivery of services. Unlike utilities, railways cannot merely pass on their higher costs through higher rates. In fact, railways operate within intensely competitive transportation and capital markets.

This business reality has in recent years put tremendous pressure on railways to align their operations consistent with where the profitable business exists. In this context, eastern Canada, including Ontario, has been under intense scrutiny for the last decade or longer. Excess infrastructure and progressive traffic shifts from rail to trucks have left the railways in the east to fight a largely uphill battle for viability. You might be surprised to learn that between 1989 and 1994, the combined losses incurred by the CPR and the CNR, related to operations in eastern Canada, equalled $2 billion. Clearly, this could not be sustained. Changes have taken place.

The Canada Transportation Act, the 1996 legislation which now regulates the activities of federal railway undertakings, acknowledges the need to treat railways as businesses by fostering an environment which improves the railways' ability to earn their cost of capital, which in turn would allow the continual reinvestment in plant and equipment required to sustain effective service. In this regard, the new legislation provided for a more business-focused approach to network rationalization.

The result of this has been the initiation of a process of significant network restructuring by the railways and a corresponding proliferation of smaller, lower-cost shortline railways picking up track with marginal business potential to the major carriers but potentially profitable to the smaller, lower-cost operator.

The government of Ontario has recognized this change and provided the support for an Ontario shortline industry through such actions as the passage of the Shortline Railways Act, 1995. Since this time, smaller operators have entered Ontario to operate lines formerly with the CPR/St Lawrence and Hudson as well as the CNR. This

trend is expected to continue for the foreseeable future. Where a line cannot be operated profitably and a shortline operator is unable to step in, line discontinuances will be inevitable.

The CPR's approach to this problem in the east has been to provide a small management group in the east with the mandate to turn the east around or else. The 1996 incorporation of the St Lawrence and Hudson Railway Co, a wholly owned subsidiary to the CPR, headquartered at Montreal under its president, Jacques Coté, allowed for a total focus on the eastern market but also signalled that our owners expected a turnaround. Immediately, a plan was developed to lead the St Lawrence and Hudson to revenue sufficiency. The five-pillar plan included issues within our control, as well as others outside our direct control. The areas within our control are well in hand, including a drastic reduction in our costs, an improvement in our service through a higher customer focus, and a fast-paced network restructuring process. The areas outside our control, including the need for more favourable labour agreements with our unions as well as governmental policy and regulatory reforms, are just as crucial to our success.

Both the St Lawrence and Hudson and the CPR make substantial contributions to the economic life of Ontario and its communities. Both have a strong commitment to the province. For Ontario to remain competitive it continues to need low-cost, viable railways, both for the transportation of commodities to and from North American ports and across the continent, and for the provision of passenger and commuter rail service.

Increasingly, the railways' ability to fulfil this commitment is hampered by provincial and federal government taxation and infrastructure support policies that discourage capital investment in railways. Unfortunately, Ontario government policies contribute substantially to these handicaps. Such policies jeopardize the ability of the St Lawrence and Hudson and CPR to make the infrastructure investments needed to meet the challenges faced by provincial industries in the North American and international marketplace. They also effect the futures of thousands of Ontario employees of the St Lawrence and Hudson, the CPR, and the many local businesses and suppliers from which the railways annually purchase millions of dollars in goods and services in support of active operations.

The ability of the St Lawrence and Hudson and CPR to provide rail service that is competitive with US railroads and the Canadian and US trucking industry is undermined by policies of the federal and provincial governments, including Ontario. For example, based upon 1996 data, the St Lawrence and Hudson and the CPR, together with the Canadian National Railway Co, pay approximately 53% more in fuel, sales, and property taxes than would similarly sized railroads operating in the United States. Further, railway asset depreciation rates are much less favourable than for Canadian railways' major competitors.

Canadian railways pay four cents per litre in fuel tax to the federal government, while US railroads pay under two cents per litre to the US federal government. The level of Ontario fuel tax applied to locomotive diesel fuel is over six times as great as that paid to northern US border states by carriers operating in those US jurisdictions.

Railways finance, build, maintain and police their rights of way and are highly taxed on them, while other transportation modes use publicly funded and publicly owned infrastructure. For example, trucks operate on public highways; lake vessels operate on public waterways, canals and locks. Railways pay significant property taxes on their largely unserviced rights of way; other transportation modes pay no taxes on the publicly serviced rights of way that they utilize.

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Inequitable taxes shift freight traffic from rail on to trucks or on to US railroads. This is in part because lower tax levels result in lower costs for trucks and foreign lines to deliver service to price-sensitive shippers. Less traffic on Canadian rail routes reduces their viability and service levels. The more traffic is shifted to trucks, the more congested and less efficient the highway system becomes.

Provincial policies have enabled truck carriers to price at levels below what they would otherwise be able to do, thus fostering a traffic shift away from rail. In this regard, taxes on locomotive fuel and right-of-way property add to the artificial cost advantage of highway carriers using public highways. Locomotive fuel and property taxes subsidize the highway and its commercial users.

A 1993 study by the Transportation Association of Canada shows that US trucks, Canadian trucks and US railroads pay about 8% of their total revenues in taxes. In comparison, Canadian railways pay more than 14% of total revenues in taxes, almost twice as much. Municipalities collect property taxes from railways, largely to support local services such as maintenance and repair of public roads for motor vehicles, including trucks, one of rail's major competitors. The same can be stated regarding the fuel tax applied to locomotive diesel fuel.

From the public perspective, promoting a shift of traffic from rail to trucks through lopsided taxation policies is inefficient from a number of perspectives. Not only do railways, compared to trucks, represent a more effective method of transporting goods and people from a fuel efficiency and environmental standpoint, they do so through privately funded infrastructure. Taxpayers are therefore able to forgo the increased costs of highway construction and maintenance, not to mention health, safety and road-congestion-related societal costs, which are no doubt very great. Establishing a balanced approach to taxation in the transportation sector would instead promote publicly efficient shipper choice by dampening the modal shift which continues to occur.

Bill 149 provides for the particular handling of railway linear corridors whereby the province proposes to set municipal tax levels for rights of way, applying a per acre geographic rate, indexing same to average tax rate changes. The regional rate system is expected to result in

consistent treatment of rights-of-way property, prevent unpredictable and escalating tax increases, and help stabilize the revenue base for municipalities.

It would appear that the proposed system in some respects is a return to the railway tax factor employed up until 1989. As you may know, the railway tax factor was developed in 1979 as a means to stabilize the increasing tax load the railways were faced with through an increasing trend to higher and higher abutting land values. The removal of the railway factor left the railways open to inequitable assessments, resulting in rapidly increasing property tax loads on largely unserviced lands. Appendix C to this submission sets out the 1997 property taxes paid by the CPR and St Lawrence and Hudson in Ontario.

We understand that the new regional rates would be phased in between 1999 and 2006 and would apply to incumbent carriers, but that new carriers entering the market after the bill's passage would face the new rates automatically. We ask that the committee carefully consider the potential negative effect this automatic application to new shortline carriers might result in. Shortline operators are able to succeed only when they are able to keep their costs low. Property taxes of significant magnitude call into question the feasibility and viability of shortline operations.

Bill 149 is a recognition that the removal of the railway tax factor in 1989 was a mistake. To truly remedy the problem the sector faces in this area and thereby help to make Ontario a more competitive trade economy, more commitment is needed from the government at this crucial time. Please consider the following points:

(1) The effect of any uniform rate should not be to shift the tax burden within the industry, but instead it should be a method to implement a correct solution.

(2) The move to a regional-based centralized rate makes sense, in our opinion, but it should be carried further. The new administration process should also provide the railways with a centralized method of tax payment rather than require the railways to each deal with 300 to 400 municipalities.

(3) Most importantly, you cannot consider municipal taxation of railways in isolation. The other half of the property tax equation, that is, education tax, must be considered at the same time if successful reform in this area is to be achieved.

(4) An area of great concern is the effect of the removal of the business occupancy tax and its inclusion in the property tax. Railways have always been exempt from this tax, and to add it now to the off-of-right-of-way properties, which primarily consist of operating lands required to support our rail corridors, could have a dramatic and damaging effect. We estimate a potential increase of up to 45% on our off-of-right-of-way properties, leading to an approximate increase of between $3 million to $4 million dollars in our tax exposure. This certainly could not be what the government intended when it set forth to work out solutions to the problems facing the rail industry. To counteract the potential, unexpected tax increase through the addition of the former business occupancy tax to-off-right-of-way property, including track-intensive yards, accommodation should be made now to ensure this potential increase does not occur, through such actions as the redefinition of "right-of-way" to include yard trackage, by altering the regional rates to balance off the unexpected increase, or a combination of both.

(5) Since the removal of the railway tax factor in 1989, the railways and municipalities have been engaged in many numerous property tax appeals which have arisen as a consequence of municipal reassessments since that time. At last count, up to 30,000 appeals remain outstanding. This fact raises a question as to what will happen to the regional rates once these appeals have been concluded. Implementing the regional rates which would at least correspond to the 1989 tax levels may also assist in the expedited handling of many or most of the outstanding appeals.

(6) Lastly, future taxation policy in northern Ontario's unorganized territories, and levied as provincial land taxes, remains uncertain also. Presently, the CPR occupies 25,000 acres, which is primarily right-of-way, in these unorganized lands. It appears that this issue will not be addressed until perhaps 1999. We fear that these properties are at great risk of massive tax increases should the province not reach a solution to this question soon.

In conclusion, the St Lawrence and Hudson and CPR are privately owned and financed undertakings which, in order to remain competitive, must be cost-effective. Taxation costs represent a very large portion of the total costs incurred by this company in the provision of its services. This company respectfully submits that increasing efforts must be made to continually reduce the level of property taxation applied to railway operations. Action and leadership by the Ontario government in these areas will improve the international competitiveness of Ontario industries and improve railway competitiveness. Modifications to the province's pending new 1998 property tax system are urgently needed in order to ensure that Ontario has a vital and effective railway industry that supports the Ontario economy.

We ask that you seriously consider the issues raised in this submission and recommend changes consistent with it. As time constraints today have limited our ability to address all the issues, we have also appended the St Lawrence and Hudson's submission of September, 1996, to the Who Does What advisory panel regarding taxation of linear property for your further consideration. If helpful, we would be pleased to further discuss our views at your convenience.

The Chair: Thank you very much. There are approximately nine minutes left, so I'll go first to the Liberal caucus.

Mr Phillips: We heard yesterday from two other organizations associated with the issue, both indicating the same concern you have, that currently your property does not have business occupancy tax on it. It's the government's intention, or expectation, that when that is removed from everybody else it will be added on to the realty tax. I gather you're suggesting that your organization would see

a $3-million to $4-million tax exposure. Your suggested solution is to potentially redefine "right of way" to include the marshalling yards?

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Mr Marsh: That's correct; or just the regional rates.

Mr Phillips: Or just the regional rates —

Mr Marsh: On the right of way, as a balance.

Mr Phillips: Right. Have you had any response from the government, because I imagine you've talked to the officials as well, on what the intent of the legislation was? Was the expectation that you would be caught in a tax increase on your non-right-of-way property?

Mr Marsh: We've certainly been given the impression, at least, that this issue seems to have been a surprise. Whether or not it was something that was known when the government set forward to change perhaps the approach to rights of way and focused on rights of way and didn't focus on the total tax exposure of the railways, I can't speak to, but it certainly has appeared to us to have been a surprise.

Mr Phillips: You indicate that you can't consider municipal taxation in isolation with the other half of the equation, education tax. I agree with that. Over half of your taxes go to education, 53% or 54% I would think, perhaps more. But that decision looks like it has been made. The government is going to set the rate itself through what's called regulation, and there is it. It will come out on some Saturday in the Gazette, and you and I will both find out about it at the same time. Does your organization have any concern about setting this by regulation?

Mr Marsh: It's hard to comment without knowing the details, but regulation is subject to change. Those changes could be good or bad; it really depends on the numbers.

Mr Pouliot: Thank you for your presentation. Listening and going through your presentation, you fear that what you gain under rights of way you might lose on the property. I'm a little confused because you estimate that there could be an increase of up to 45% on the out-of-right-of-way properties, if you wish. The reason I'm confused is that I heard the Premier not once but on repeated occasions mention that within three years — he mentioned the year 2000 — city managers, that's mayors and reeves, should be able to enact anywhere from 5% to 10% savings in municipal taxes. I see some dislocation here. I'm trying to reconcile it. You see, I have to believe somebody sometime in the world I live in. In this case, when it was said the Premier said it with sincerity; he was perspiring sincerity, and I could see the perspiration. I guess if you can fake the truth, you can fake anything. How do you arrive at 45%? Where are your figures? What basis do you operate from? Who told you that?

Mr Marsh: I'm operating on the basis of assumptions and calculations that our property tax manager has provided to me. I believe I have spoken to others who seem to concur that it's within the range; it may be towards the top end of the range of that particular business-occupancy-tax effect. Those numbers aren't at my fingertips. I'd be more than happy to provide those to you, though.

Mr Pouliot: Please. By way of a final supplementary, Chair, briefly, I'm trying to get the tapes, the assessment, the impact study. We don't have this. Unless the assessment figures are in, unless the budget and the final levy are set by the municipalities, unless we have the figures of the devolution, the new services being provided, it is very difficult. We can guesstimate, we can come up with what we call a worst- and a best-case scenario and seek equilibrium and balance in there, but that's not a true database, because you don't have data at your disposition.

The Chair: Would you like to give a brief answer?

Mr Marsh: Yes. We're required to come up with our best estimate based on a prudent business approach to the costs that face us. Our best estimate is based on the assumption of things remaining the same. So despite the fact that things may well change and the municipalities may find their costs and requirements go down, and that may have a positive impact on that, we've been forced to assume that, all else remaining the same, this would be the effect.

Mr Grimmett: Thank you for your carefully reasoned presentation. Yesterday we heard from the CN, so I'll be fair and ask you the same sorts of questions and make the same sorts of comments. First of all, I think it was the association of Canadian railways — I'm not sure if I have the name right — that suggested we might look at other railway lands as a way to possibly deal with the issue. Has there been an analysis of this in any significant way by the two major railways?

Mr Marsh: Not in a formal sense. The issue really has come to us fairly recently. Since the information regarding the business-occupancy-tax effect only became very clear when we met with finance staff some time ago and it became obvious to us that there was an impending problem here, that analysis hasn't been carried through, although each company has no doubt done their own estimates of what the potential upside effects would be. Of course, it's hard to estimate or compare that to the effect of the right-of-way rates as we're not formally notified of what those regulatory rates are at this moment. So although we know what regions they are, we can't really compare that to what would be the effect of the right-of-way sections of the provisions.

We are somewhat concerned that there seems to be a difficult issue there as to how to apply a uniform rate to both companies and yet keep both companies in, as it were, a status quo competitive position. Those are issues that are all difficult to work out without having all the numbers before us. That's one of the unfortunate situations we're faced with, that we don't know what the rates are. So it's hard to compare how that scenario may play out. We may have ideas. Certainly finance staff have been interested in knowing what our views in that regard are, so we'll hopefully be working that through in a little bit more detail, but it's very difficult to work that out in detail.

Mr Grimmett: Perhaps you could provide us with a little more information on the properties that you'd identify could be considered for that.

Mr Marsh: Certainly.

The Chair: Thank you very much for coming. We appreciate it very much.

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NORTH HILL DISTRICT HOMEOWNERS' ASSOCIATION

The Chair: Could the representative from the North Hill District Homeowners' Association come forward, please. Could you please identify yourself for the record.

Mr Brian Maguire: My name is Brian Maguire. I'm the director of North Hill District Homeowners' Association. I presume you all have the package I handed out. If you would turn to the pie chart to begin with, this is a question that was part of the transition team's third questionnaire, the third wave, as they call it. It's essentially a question that does not deal with market value in so far as it incorporates a size component. If you read the question, it says, "Some people say this will be unfair in the new city and all should pay the same amount for homes of the same size and value." Essentially, the average person on the street says that a size factor should pay a role in the type of property tax we have. That's reflected in the number of 52% which went along with that combined composition of size and value; 46% agreed to have property taxes stay the way they are.

If you turn then to a letter that I wrote to Mel Lastman following up a public meeting where he made a speech on September 29, I referred to this particular pie-chart question. In the second paragraph, I note: "Even though the average citizen isn't an expert on property tax theory, when asked he or she intuitively feels that a bigger house should have a higher property tax than a smaller house if their value on the open market is the same. Similarly, the citizen would intuitively feel that a more expensive house should have a higher tax than a less expensive one if their size is the same." That's, as I say, exemplified in this questionnaire.

If we turn then to the next piece of material, this is an effort by a gentleman named George Carr, who lives in the Lytton Park area, north of Eglinton in Toronto, where he essentially has come up with a system that he calls the blended-tax ratio, which in fact incorporates both size and value. If you turn to the third page, at the bottom you'll see, in reference to the material, the headline "Blended Ratio Assessment." He uses the gross floor area, in this case 4,500 square feet, and he relates it to the average gross floor area in Metro. Then the ratio of those two is 1.5. In the same way, he relates the value of the individual house, in this case $240,000, to the average resale house price in Metro of $200,000. The ratio of those two is 1.2.

You'll notice that he uses the purchase price. This is similar to what is being used in California under proposition 13, where the idea is essentially that when you purchase a home the price you pay reflects your ability to pay at that moment. Whereas with the market value approach, if it is not updated it can change to the point where you're no longer financially capable of meeting the property tax, the idea being that the combination of those two would be a compromise which would reflect the average citizen's desire to have both a size and value component to the type of property tax.

I'll just briefly mention John Barber's column this morning in the Globe, where he reflects on the disparity of commercial and industrial property taxes. The problem with that is that it's sort of an apples-and-oranges situation, where the comparison with American cities, for example, doesn't reflect the differences between their use of sales, payroll and income taxes to raise revenue. It's the sort of thing that if you feel that C and I properties are fleeing, they do so precipitously because there are other factors beyond just the absolute property tax that enter into how easily they do business, the social factors that surround that particular business. It's not a straight comparison.

The next material is about tax revolts. This was a presentation in September for an annual conference of the International Association of Assessing Officers. This is the major international body for assessing people. These are examples of referendum questions that have been put on the ballots in various states, and I'd call your attention first to the second page, California, where it passed a requirement that there be voter approval of property-related taxes and fees. That follows up on their proposition 13 where the citizen really does have a say in the type of property tax that's levied.

If you turn to page 6 of that material, legislative action in Minnesota, you'll see that they received part of their revenue from the state, in contrast to the desire of Queen's Park to basically shift the burden of property tax solely on to the municipalities, and some of the things that we normally think of in terms of social programs that were funded by the province are thought to be more appropriately dealt with at the municipal level. The problem with that, of course, is that the property tax isn't really a good indication of ability to pay, so one could say that it's not exactly a progressive tax.

When you see Montana there, you'll note that they have just passed — in fact they did just pass, although it doesn't say it there — a bill that allows them to phase in increases at no more than 2% per year, and their next re-evaluation won't be until 10 years from now.

Then if we go to the next page, for example, New Mexico — these are proposed ballot questions — it would put a limit on value increases, and in the case of Pennsylvania, a local option approach. The next page, Texas, limit on value increases and freezing seniors. In Washington, you have the proposition 13 again.

So there is an acknowledgement in the States that rather than being a top-down decision from the bureaucracy of finance and assessing staff, this be from the ground up, reflecting the wishes of the people.

In that vein, if you turn to the next piece of material, this is a petition that was put together by myself, and I am, incidentally, the secretary-treasurer of the largest umbrella group of resident and ratepayer associations in the city

called CORRA, Confederation of Resident and Ratepayer Associations.

If you turn to the second page, at the top it states, "Our association believes that local option should be granted by the province to the city of Toronto for assessment reform, which would give the city the ability to decide which method it would prefer to use."

As is stated on the cover, the actual document with the signatures is in the Clerk's office, because it was read into Hansard by Isabel Bassett. This collection of signatures, all of whom are the presidents of their associations, represents the largest group of major associations in the city and most of the major minor ones as well, so once again there is the contrast between what the citizens would like and what seems to be the agenda of the assessing office.

The next piece of material is the Fraser Institute's report for September 1997. This is not, of course, the complete report, but it is the section that deals with municipal affairs. The first portion of this deals with the megacity issue. On page 39, you'll note that at the middle of paragraph 3 it says: "The Ontario government has confused the desirability of smaller government with the totalitarian ideal of a smaller number of governments. Since the City of Toronto Act is just one move in the Ontario government's agenda to reduce the number of Ontario municipalities from 840 to fewer than 350, a deeper analysis of Bill 103 is of interest to all residents of Ontario."

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Then if we go from that third paragraph to the fifth paragraph, beginning "Local government," you'll note that it says that while it may in fact be inefficient:

"Nevertheless, there is reason to believe that the megacity...will be even more inefficient. While there is a great deal of needless overlap and duplication under the current local government, there is at least some intergovernmental competition among Metro Toronto's six district municipalities. Under the megacity, all governments will be amalgamated into one and intergovernmental competition will be replaced by monopolistic government. If monopolistic firms are considered to be inefficient, then surely the same analysis applies to government."

If you turn to the second page, page 40, it reflects on some material from a Mr Wendell Cox, who has found that there are in fact diseconomies of scale in the megacity of anything over 500,000.

If you then turn to page 41, "The Fairness of User Fees," the idea of the user fee, of course, is to reflect on what you consume. There might be those who would argue that it's a regressive approach, but once again it's a question of what should be handled by the property tax versus what should be handled by an income tax relating to ability to pay.

Finally, if we go to the actual property tax page on 42, once again we get into the fact that Ontario's property taxes are the highest in Canada. The issue of why they're that way, you can reflect on the philosophies of the various governments, but one problem that was mentioned in our submission on Bill 106, and I'll reiterate it, is the fact that at the municipal level, unfortunately, from the standpoint of the average citizen, there is not an arm's-length municipal auditor who essentially stands in the stead of the citizen to monitor where fat in the system exists. One could say that in an efficiently run government, at the service level end of things you should have just enough people to provide the services you need. Then, as you go up the scale, you get into the Peter principle, where people are rising to their level of incompetence, and you get the potential for fat developing in the managerial middle levels. It's at that level, which is a little more difficult to get at, that the auditor would be able to point to inefficiencies that could be rectified. But the point of the Fraser Institute — which I'm sure you're aware is a conservative think tank — is that the idea of moving towards a larger municipal government really is at odds with the idea of small local efficiency, and in that vein, you're essentially expecting the arguments that are used by those who say amalgamating seven into one will necessarily lead to cost savings. Maybe they will and maybe they won't. For example, in the case of the fire department, it's really only at the managerial level where potential savings might arise, because if you have a lean and efficient system of service providing at the street level, you have enough firemen to deal with the local concerns and no more.

If we go to the third paragraph at the top of the page, beginning "The Ontario government's rationale," the second sentence there:

"Underlying this statement is the mistaken belief that property taxes should support services other than those directly consumed by the property itself and its residents. A...four-bedroom house imposes no more burden on a city's snow-removal operations than an ugly house of less value. Owners of more valuable houses do not necessarily visit the local park any more than do owners of less valuable properties...."

It also states that a market-based system inhibits renovations.

At the bottom we see mention of the alternatives to AVA: the California purchase price or actual price acquisition, and the UK's council tax which has a system of eight bands and sort of an arbitrary compression of tax rates within those eight bands that is agreed upon by the citizenry. It was brought in in reaction to Margaret Thatcher's poll tax, and the Conservatives found that it was acceptable, as did subsequently the Labour government. They continue on to suggest that unit assessment is the fairest and most efficient of all, where essentially you require a tape measure. With a three-year update using the AVA system, it requires an annual reassessment bureaucracy and 3.8 million assessments to be updated, which of course is quite costly. In the case of UA, you have one-time assessment.

Their proposals are that one should replace the current system of local government, once again, with a single tier of competing local governments; encourage municipalities to charge, wherever possible, for the consumption of municipal services on a user-fee basis; and use the unit assessment system.

In the final paragraph, conclusions, the Fraser Institute says: "[T]he municipal affairs policies pursued by the Ontario government are disappointing. While the encouragement of user fees and downloading of hard services to the local level means superior government accountability and increased control by taxpayers over the taxes they pay, perverse policies in the area of municipal amalgamation and property tax assessment overshadow these favourable initiatives. For these reasons, the government deserves a D for municipal affairs."

The next material is from the Canadian Taxpayer Federation, and this was presented to an annual international gathering at the Sheraton Centre in November 1996. You just have the first two pages and the last two of a 22-page submission. On the second page the Ontario Taxpayers Federation makes the point in the last paragraph that there is going to be $60 million spent on the assessment, and 30% of the properties needed to be assessed, the $130 million it now takes to run the Ontario property tax assessment system and millions more to be spent annually to update it.

We finally go to the second-last page. The analogy is made of the poor order in which this was introduced, because the Canadian Taxpayers Federation believes that you should have had in place the governmental system and known what responsibilities and tax needs were required by them before you even considered rearranging the property tax system.

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On the last page is the solution of the Canadian Taxpayers Federation. AVA will be politically costly. They are suggesting user fees, parcel taxes, since parcel taxes reflect the idea that fire and police, parks and recreation and transportation really do not relate to the value of a property in terms of how much is consumed, so that could more readily be a flat tax rather than part of the property tax; and they feel that unit assessment, just for the reasons previously mentioned, is the system that would be the least expensive.

I'll just mention a submission next that was made on Bill 106 by the OPSEU, who in fact are doing much of the reassessment, in which they say that the schedule is actually ridiculous because of the rapidity and that it's going to result in very questionable assessment numbers which will ultimately be the subject of many appeals.

There is material that's slightly out of order there, but it's two or three units down. It's a building inspection checklist. This is from a textbook called Real Property Assessment, and this is being taught by Seneca College to those who want to qualify as assessors in the AVA course, based on the BC experience. You can see from those three pages that essentially the BC approach, which uses all three pages of this very detailed study, is so truncated in the current approach, which is only using four or five different criteria, that the present approach is going to result in very questionable numbers that will be subject to appeal.

We then move to the alternative systems. For those of you who have been part of the ongoing arguments, most of this will be familiar territory, but I think it is deserving of revisiting. The idea that AVA, which is a very volatile approach, is the only way to go just because the bureaucracy of finance seems to feel that it's the simplest way to move from here to there, I'm not sure that's a sufficient argument to deal with the largest property reassessment in North America. I think that just because it's going to result in such upheaval, it behooves the government to reflect on that upheaval and its impact on both residences and business operations. The arguments both for and against MVA are made there, the disadvantages of MVA, tax volatility — on page 3 — uncertainty, high cost, disincentive to improve properties and high rates of appeal if they're not kept up to date.

The unit approach, of course, is very simple. You have the gross floor area already in the provincial and municipal files. On page 4 it mentions the disadvantages. Regressivity, which was mentioned in the Golden report, has been met by the use of lower tax rates for smaller homes, which brings it down to a neutral impact rather than being regressive.

The UK council tax is quite an acceptable tax system for them. It's not a straight MVA; it's agreed that the tax rates are compressed so that the lows are no more than a third of the highs.

In the case of proposition 13, which is based on purchase price, it is an approach that was voted on by the citizenry in a referendum. For those who question the lack of updating, it was challenged in the courts. The Supreme Court held in an 8-1 decision in 1992 that California was justified in having that type of property tax system, regardless of any perception of unfairness. The advantage of it is that it lends more stability; it doesn't penalize those seniors who stay in their home a long time and whose income does not necessarily keep up with a volatile housing market.

On the next page are some impact numbers from 1988, provided by the city of Toronto's economic development division. You can see the change from 1988 to 1996 in the market values. It really exemplifies the volatility of it, where Toronto is substantially going down, in most cases. You can see anomalies, though, among the six municipalities that are not necessarily expected, Scarborough for example. This is just another example of how MVA is a system that produces the unexpected. Because of that, it makes it difficult for both individual homeowners and especially businesses to arrange their financial affairs properly if they can't predict what the real estate market is going to do.

We then turn to the material that was handed out during Bill 106, from Ms Bassett and Mr Leach, in which they specifically and unequivocally said they would not impose MVA.

If you'll turn to the last page, this is a photocopy of the May 2, 1996, Star article, quoting the Premier. He says, "I think it's reasonable, when politicians who campaign in a direction or on a platform for things that are within their control, that they ought to resign or go back to the people if they in fact are going to change their minds."

If you return to Mr Leach's statement, he said, "My party and I will never support the imposition of MVA in Metro Toronto." He subsequently become the Minister of Municipal Affairs; that's within his purview. I'll leave it up to Mr Harris to follow through on that.

The Chair: Thank you very much, Mr Maguire. Your time has effectively expired.

1540

WINE COUNCIL OF ONTARIO

The Chair: Could Linda Franklin, executive director of the Wine Council of Ontario, please come forward?

Ms Linda Franklin: Thank you very much. I appreciate this opportunity to come and address the committee and to offer a positive, good-news perspective on the legislation on behalf of the Ontario wine industry.

I thought I'd take a second to introduce the wine council to you, for any of you who aren't familiar with us. We are the trade association of wineries in Ontario. We have 32 members that represent about 98% of the wine volume produced in the province of Ontario. We have a very mixed bag of members, everything from very large producers who do well in excess of one million to two million cases of wine a year, to very small producers who do in the hundreds of cases in a given year and are family-run farm businesses, basically, that have grown into wineries over the years.

It's on behalf of those estate wineries, those farm-based wineries, that I'm here today speaking to you about a specific issue of importance to us, namely, the change in the tax treatment that's going to be accorded to the estate wineries under this legislation. Our industry is tremendously supportive of the legislation, because we believe that in the case of wineries and value added farming operations, the changes it puts in place will ensure that the growth we've seen in our industry over the past few years, particularly on the estate winery side, can continue and that grape growers, amateur wine makers and other entrepreneurs who see that growth and want to be part of it will have an opportunity to start a new winery and won't be discouraged by skyrocketing taxes, which would have been the case had nothing been done to change the existing tax assessment structure in the province.

To give you some background, "estate wineries" is a fairly broad designation that's not captured in law anywhere, but generally what we mean by estate wineries are wineries that are based on farm land; they are small producers; they don't have big industrial complexes; they tend not to have access to industrial services the way industries like General Motors do. These wineries generally are located on land that is specifically zoned agricultural. It makes good sense, because most of them started out as farms or have a fairly large component of their property that is a farm dedicated to growing grapes for the wine they produce. Because they're zoned agricultural, they don't have access to a lot of the services — water, sewage and so forth — that industrially zoned land does, and those that are in the Niagara Escarpment plan area, which many of our wineries are, obviously, have far greater restrictions on their property. That's fine; that's part of the price of being an industry that's agricultural in nature.

Over the past few years, we have seen a tremendous explosion of growth in our industry, as any of you who have been down to the wine region in Niagara and southwestern Ontario have probably seen. We have wineries now with big outdoor decks, wineries with restaurants, wineries with very large tour programs, and many wineries which are very small in nature but are making very large investments in land simply because the demand for our wines is growing and there's a concern that if we don't plant grapes, we simply won't have enough product to satisfy consumer demand. So people have a very large investment in land.

We believe as well that there's tremendous area for growth in the wine industry. There are about 40 wineries in Ontario right now. The next-smallest wine producing area is probably New Zealand, and there are over 350 wineries there. You can see from that that there is a pretty big potential for growth in our industry, and we think that growth over the next few years will probably be realized. We've had seminars in the past year or so where we've gotten up to 100 growers and amateur wine makers out to talk about how you go about starting a new winery. There is a tremendous unrealized demand and potential there that I think you'll see exploding in Niagara and southwestern Ontario in the next few years.

Our industry took a real hit and a big shock in 1996, because the Niagara region, in advance of some other areas of the province, went through a reassessment of all the properties in Niagara as part of a move to market value assessment. We didn't have a problem with the move to market value, but during that process, when the assessors came around to the estate wineries, they informed them that for the purposes of the new tax rolls that would be created, they were going to effectively sever the property and create two tax rolls, one for the farm part and one for the winery part.

They told us at the time that they would be doing us a big favour in doing that, frankly, because even though it wasn't strictly allowed under the Assessment Act, if they didn't do that the entire winery property would have to classed as industrial. If you were sitting on 100 acres of farm land, you'd be looking at a tax increase from a few hundred dollars at a farm rate to a few hundred thousand dollars at an industrial rate. Frankly, the notion of vineyards being classed as industrial land was ludicrous. The assessors recognized that, but there was really nothing in the Assessment Act as it stood to allow them to do anything other than assess it all as one factor, and that would be industrial because there's some industrial activity going on there.

So a new tax roll was created for the severed winery buildings and those buildings fell under an industrial assessment factor. The regional assessors were concerned about this and clearly unhappy about what they had to do but said that the current legislation gave them no choice.

Partly, this was also predicated on the fact that between the last time the wineries had been assessed and the current assessment, there had been a couple of court cases, at which time they had looked at operations that were largely farm but processed the result of their farming activity in some way.

The most specific case was a case of a cherry producer who, in the course of taking out the pit from the cherry and putting it in a can, had somehow become an industrial operation. There was a legal case that clearly specified that this was an industrial activity and therefore the land could no longer hold a farm designation; it would be industrial. So when the assessors came to look at wineries, they asked themselves the question: "What on earth would be different between this, where you take some grapes and crush them and ferment them, and a guy taking a pit out of a cherry? In fact, aren't they both industrial operations?" The general view of the assessment office was yes, in fact they were.

Under this change, the parts of the wineries which housed farm machinery, which housed our winery retail boutiques and stores, all the commercial areas, storage facilities for wine that simply sat there until it went to the LCBO, all got classified as industrial because we also had tanks and bottling lines in part of the buildings, and that made the whole piece of it industrial.

The result of that was that wineries in the Niagara area were confronted with really staggering tax increases. In one case, Henry of Pelham, their tax rate went from $825 in a year to $25,000. It completely took them by surprise; they opened up their assessment bill and were faced with it. In many cases, it would have meant wineries shutting their doors, because a lot of these are very small mom-and-pop operations and simply did not have the capacity to deal with those sorts of tax increases.

The other big concern we had, aside from the likelihood of the estate wineries that existed continuing to exist, was the dampening effect it would have on any of these poor folks who had come to our seminars and were looking at starting up a winery, who had some farm land that they wanted to turn over to wine production. If all of a sudden you're told that your tax rate is going to jump by a couple of thousand per cent, it's sure going to be a discouragement to going forward with that plan.

With the wineries that were already in the peninsula, one of them decided that they were going to stop plans for construction to increase the size of their winery, because it became cheaper for them to rent commercial storage space in downtown St Catharines than to add a storage building on property they already owned on the winery property.

Another winery, located in Beamsville, that had spent a tremendous amount of money producing a lovely building there to house its winery, looked at and eventually moved into commercial space in downtown Toronto, which put them closer to their client base and lowered their taxes, if you can believe it, over the cost of the winery taxes.

You can see from that that if the situation hadn't been addressed, the tax increases that were scheduled to have taken place would have been pretty devastating to our existing wineries. Just as important, I think, is that when we talked to the regional assessors we brought the Ontario Federation of Agriculture in with us in the discussions, because they had come to us and said: "Hang on a sec. Maybe the wineries are only the first folks that have been clipped by this, but what happens if you are any kind of farm operation and you do some value-added?" We asked that question to the assessors, and they agreed that all value added farming operations in the province would be hit by this same tax problem when there was a general re-evaluation of properties in 1998.

I brought, so you can have a look, a picture that illustrates how ludicrous this is. This is a farm in Niagara that's an apple producer, and as a value-add they put a little stand outside their farm every summer and sell apples and apple cider that they make onsite. By virtue of crushing their apples and turning them into little jugs of apple cider, they would have attracted an industrial assessment on their property as of 1998. Somebody asked me if the little stand they sell the cider on would actually be an industrial or commercial building, and indeed it probably would be.

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At any rate, that was the scope of the problem. In fact, we would have called it a crisis in our industry. We first approached the regional municipalities in Niagara and the regional government and asked for their help, because obviously, to make a change like this means changing the amount of hard dollars they get into the region. Everybody was very supportive. They were all quite appalled at the change that had transpired and the lack of anybody recognizing that this might happen. We had resolutions signed from all of them arguing that this should be changed in some way.

Then we went to the province and asked for help to ensure that the new Assessment Act would deal with this problem of assessing value added farming, and specifically estate wineries for us, at the same rate as General Motors. We were gratified that through the public hearing process and through discussions with government, we were listened to and the problems we faced were dealt with fairly expeditiously. As a result, the new assessment system that's contained in this bill and Bill 106 harbours a number of differences from the current system that we believe allow estate wineries to be dealt with in a far more realistic way. They obviously will not be entirely assessed as farms, because we recognize that there are things going on on those estate wineries that aren't entirely farming; however, it allows for a change that recognizes the nature of their business.

Most importantly, among those changes there's a regulatory amendment to Bill 106 which was tabled before the committee along with Bill 149. It changes subsection 19(5) of the bill. That allows wineries that are located on land that's zoned primarily for agriculture to have the land that the winery building sits on assessed as farm. So the land underneath the building will be farm land for assessment purposes. That's the same as is done

right now with farm residences, for example, on agriculture land.

This is appropriate, we think, because as I pointed out before, agriculturally zoned land doesn't have any of the services of industrially zoned land and therefore probably shouldn't be taxed at the same rate. It seems like a small change, but in fact the difference between the industrial factor in taxation terms and the farm factor will make a difference of thousands of dollars to the smallest of our estate wineries, which have most of their investment tied up not in their buildings and their value but the land and its value. It also means you won't have to artificially sever property in order to make the law work appropriately for these properties. Many of our small producers have told me that this change alone ensures they'll be able to stay in business and consider expansion plans, rather than facing the possibility of losing their wineries, which was a real possibility.

It's important to note that the change doesn't apply to wineries in Ontario that are large wineries located on industrial land already. When we talked to the region, one of the most important issues they brought to bear was: "Look, we understand your issue around farm-based wineries, but we sure as heck don't want to be facing a situation where Andres wines suddenly becomes a farm for assessment purposes." Andres, Vincor, all of the large players, agreed with that, don't believe it should change for them, and the amendment is a fairly neat way of getting around that problem and recognizing what the wineries actually do on their site.

I'd like to note another important change in the assessment system in general that's had a real impact on the wineries, and that's the ability to assign more than one factor to a property. As I mentioned earlier, one of the problems we faced in the current assessment system is that you have to make a choice; you're either industrial or you're commercial or you're farm, and you don't get to pick among them. The wineries are mixed bags. There is farming that goes on there, there are commercial activities through the winery retail stores and the tour and restaurant operations, and there is some industrial activity in producing the wine. Many of these activities aren't industrial in nature and therefore shouldn't be taxed in one package as industrial.

Under the new system, assessors will have the flexibility to come in, determine what activities are actually going on at a given location within given buildings, and split the assessment factors appropriately, assigning them the proper class. So winery boutiques can be assigned as commercial, sheds for farm equipment can be designated farm, and areas with fermentation and bottling equipment can be identified as industrial. We think this is logical, and it has a tremendous impact.

Chateau des Charmes is maybe a good example. They had just recently put up a very large chateau on the site of their vineyards; it looks a little like the Chateau Laurier from a distance. That building, which is virtually entirely commercial and tour-oriented in nature, carries today an industrial assessment, which puts their taxes at $78,000 more than they were in 1995, before the change came in. This new change will allow the assessor to go in, recognize those areas of Chateau des Charmes that are actually commercial in nature and tax them accordingly. Again, that change ends up reducing their taxes by about $50,000 in any given year, a much lighter and more reasonable burden that recognizes what they're actually doing.

To conclude, in the province's review of the assessment system and these committee hearings, it was critical for our industry and for other value added farming sectors that this issue of value added farming and assessment factors be addressed; otherwise, assessors in the future would have been faced with the same quandary that faces us today, namely, that there is only one way to classify a piece of property. Legislation had not recognized changes in the Ontario economy that clearly produced hybrid operations, with some farm activity and something that wasn't farming but wasn't industrial in nature.

We're really grateful that our concerns were heard and acted upon. We think the net result will be a more equitable system that recognizes these changes in the value added farming sector. It will have a tremendous positive impact on Ontario's estate wine sector. We believe that in years ahead, we can start to look at little bit like Napa Valley, with a couple of hundred wineries around, a whole lot of wine decks, lots of vineyards for people to tour around and lots of wineries to visit and taste in, and these changes will mean that that vision is still possible for our industry. Thank you very much.

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The Chair: Thank you very much, Ms Franklin. We have 12 minutes left, which will leave four minutes for each caucus, beginning with the NDP.

Mr Pouliot: Madam Franklin, we know the success story the Wine Council of Ontario has brought forward over the years. In fact, a presentation yesterday cited 15,000 metric tonnes, quite the endeavour indeed. The adjectives flowed while they talked, world-class table wines etc. So one would have thought that as a gesture, a vivid example of your success story, you would bring a lot of bottles to the members of committee.

Ms Franklin: Mr Pouliot, I would have been delighted to do that except for that peculiar provision in law that disallows our industry from donating wine. But if folks can correct that for me, the next time I'm here —

Mr Pouliot: You've come to the right place. There is a way to do those things. You give it to all three parties and you make sure you include the Association of Municipalities of Ontario.

You mention on page 1 that you are tremendously supportive of this endeavour. Then you go on to caution about not including the farm properties; in other words, we sense that what you gain on the farm land you could possibly lose on the property if given the opportunity.

Then you went on to illustrate the catastrophe that was to take place, and you cited General Motors. What we do here when we wish to analogize is that we cite the much-maligned banks. It's an easy target, so why not GM?

You mentioned Bill 106. If we blend 106 and now the offspring, Bill 149, you are one of the few presenters who is pleased. I'm just wondering if I missed something in your presentation. Are you fearful in some ways? On the eve of the downloading — this brigade does not work in isolation; all the bills are meshed and the revolution is advancing on many fronts. Mr Maguire blessed us with his expertise because he knows there are 500,000 to 600,000 assessments pending. Mr Power will tell us that two months before, people don't even know the costing and they don't know in what form it will take place: What about an appeal mechanism and so on? Do you see this as just a plain win-win situation?

Ms Franklin: I guess we're in the enviable position of having seen God a little in advance of everybody else, because we had these huge property assessment increases already delivered unto us. We've been in the fortunate position over the past year of working with the regional assessors and sort of talking through, in their view, what the change would mean to us.

You're right, there's an element of the unknown here certainly, and an element of the unknown about what will happen at the municipal level once some of these responsibilities are downloaded. But given where we started from, we can't see a way where we could be worse off, and we think this goes a long way towards fixing some of what we had identified, at least in our industry, as some real and significant problems.

Mr Grimmett: Thank you, Ms Franklin. I'm going to have to take issue with one thing Mr Pouliot said. We've actually had a number of presenters who have been very pleased with Bill 149, not all of them from your industry, but it's clear from what you're saying that you are pleased with the changes.

I wanted to ask you about your comment that there should be an explosion of investment in the wine industry in the future. Do you see the wine industry growing, in terms of investment, in the number of acres planted, or is this going to be more in the by-products of the current acreage?

Ms Franklin: I think it's both. Our industry sees its growth largely in 100% Ontario products. They're growing at a rate of about 40% a year, so that's where our focus is.

We just finished a strategic planning process with the growers, and out of that we've identified that we are today still about 2,000 acres short of what we need to meet consumer demand, because it's just growing faster than we anticipated. In response to that, two things are happening. The larger wineries that aren't invested in land are signing 20- and 30-year contracts with growers in an effort to persuade them to plant more acres, which is a bit of a challenge, given the history the industry has had over the past 10 years. To believe you can actually make money in the grape industry has been a bit of a challenge. But we think we're there.

The other thing that's happening is that on the estate side, people are investing very heavily in land simply because they want control over their destiny and over the product. Vineland Estates probably would be a good example. It sits on about 100 acres of land; in the last year and a half, it has purchased and started planting about another 120 acres of land, so it has more than doubled its size and capacity. I think others are going to follow.

There'll be increasingly more estate wineries. For the past three or four years, we've had maybe one winery a year start up. For the past year and a half, we've seen an average of about four or five a year.

Mr Grimmett: Anything else in general government policy that you could recommend?

Ms Franklin: Other than changing that issue on donations of wine? I think that's it. We have been pleased to see that there seems to be a movement away from the notion of privatizing the LCBO, because for the Ontario industry it's an important vehicle. It's the only way, frankly that two-person, family-based wineries are able to sell their product all over Ontario successfully. Those two things, that and the assessment issue, have been pretty critical to us over the last year.

Mr Phillips: I congratulate your industry. As I said to the group here yesterday, 10 or 15 years ago there was concern about the future of the industry. The whole industry has turned that around, and now it's just a question of, how quickly can you grow it? The tourism aspect is a new aspect. I've been down there, and you've got the maps etc. It's a good piece of work.

You're supportive of the bill. We had our concerns about the impact on your industry, and I think the government proposals correct that. I don't have any questions. I appreciated your presentation, and I think you can assume that the provisions you're looking for will pass in the bill without difficulty.

The Chair: Thank you, Ms Franklin, for coming today and for your interesting presentation.

We'll have a five-minute recess.

The committee recessed from 1606 to 1614.

ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Chair: The Association of Municipalities of Ontario, would you please identify yourselves for the record, and then you have 30 minutes with which to make a presentation or leave part of it for questions. If you do that, I will divide the time evenly among the three parties. Please go ahead.

Mr Michael Power: My name is Michael Power. I'm the president of the Association of Municipalities of Ontario, and I'm the mayor of the town of Geraldton in northwestern Ontario. With me today I have Nigel Bellchamber, who is the chief administrative officer of the county of Middlesex. Nigel will be helping me with some of the technical parts of the bill. As a politician, I acknowledge that I don't always know all of the technicalities, and I'd much sooner defer to those who have that knowledge.

May I thank you for the opportunity to be here today to express the views of AMO on Bill 149, the Fair Municipal

Finance Act, part 2. Like Bill 106, there are many aspects of Bill 149 that are favoured by Ontario's municipal sector. Municipalities have asked successive provincial governments for reform. AMO has consistently called for a fair assessment system for all. Bill 106 was the first instalment in a two-stage legislative reform process, establishing a new model of assessment and tax policy that will have immediate impacts across Ontario.

Generally, municipalities support the direction and intent of both Bill 106 and Bill 149. We consider the two pieces of legislation to be integral parts of a set, and as such, must be taken together. Bill 149 is essential, because Bill 106 did not address all of the issues.

Ontario property taxpayers contribute more than $14 billion each year to public sector spending, an amount almost equivalent to personal income tax in this province. The magnitude of these financial responsibilities means that our assessment and property tax policy framework is the foundation upon which Ontario's system of public services is built. Our association, representing municipal governments, our communities and property taxpayers, and the provincial government have a fundamental interest in an assessment and property tax system that is equitable, fair and sustainable.

In 1997, the provincial government undertook a province-wide reassessment based on 1996 values. Municipal financial stability and all of the proposed Who Does What reforms are entirely dependent upon the province's success in this endeavour. However, six months after the hearings on Bill 106, municipalities feel they aren't in any better position to take on the massive financial responsibility that the province is shifting to municipalities, because critical information is still unavailable.

The province has also announced that the responsibility for assessment services will be transferred to the municipal sector in 1998. While municipalities accept the policy rationale for a municipally managed assessment services system, like the Who Does What advisory panel, we still do not accept that the transfer of responsibility should occur before the new assessment and property tax system has stabilized. We had expected this to be part of this legislation, but it appears that it will be part of a separate piece of legislation, and we will comment on that at the appropriate time.

As municipalities plan for Bill 149 and its impacts, we need high quality and reliable information for financial planning if we are to make decisions that affect local tax policy. Municipalities and property taxpayers will look to the Ministry of Finance for a comprehensive package of information on new processes and on the impacts for households and businesses across Ontario. We have received some preliminary information, but municipalities have stated repeatedly that we need more in-depth information. For example, in order to be able to make decisions about whether and how to shift relative tax burdens among property classes, local municipal councils need their transition ratios, because these transition ratios tell them what the relative tax burden of each class is just before assessment reform.

We recognize the enormity of the task of reassessment, and we acknowledge that the government has devoted resources to this initiative. However, timing is still a major concern for us. While the many aspects of assessment reform may work well on paper, substantial implementation issues will inevitably arise from an undertaking of this magnitude.

In analysing and responding to the assessment reform legislation, our shared goals for reform — and by "our" I am referring to we the municipal sector and you the provincial government sector — should be to ensure the following: flexibility for municipalities, fairness in assessment, improved municipal financial autonomy and a clear and standard approach to assessment issues.

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While most of our specific recommendations are outlined in the appendix, we would like to highlight our key comments and concerns. We do not intend to go through all of the details in the appendix; we leave that up to the members. You may wish to have questions on them, and you can peruse them at your leisure.

Bill 106 started the process of giving municipalities greater flexibility with respect to their revenues by allowing municipalities to shift the tax burden to meet their local needs and to address local priorities. We believe Bill 149 should continue to promote that flexibility.

Bill 149 has given municipalities the option of providing tax rebates to charities and "similar organizations" of up to 40%. While municipalities understand the rationale for this provision to provide these rebates, we would like to reiterate our belief that this rebate should remain at the discretion of the local municipality. We would strongly object to any efforts on the part of the provincial government to make such rebates mandatory, as was the case with providing mandatory tax relief, deferral or cancellation to low-income seniors and the disabled. Municipal councils are well able to meet the needs of their citizens and respond to them. As well, given that "similar organizations" is not defined in the legislation and could result in problems with its application, we recommend that it be removed from the legislation.

A new assessment system brings new transition ratios that are the starting point for municipalities and the base upon which local tax policy decisions will be made. The importance of having immediate access to these transition ratios cannot be overstated. While we appreciate that reforming the assessment system takes time and that there are complexities involved in calculating transition ratios and the ranges of fairness, it is completely unacceptable that less than three months from the date the changes are to take place, municipalities do not have all of these numbers.

It has been a recurring theme in AMO presentations to the provincial government that if municipalities are to manage new responsibilities, it is critical that we have control over our finances. With respect to Bill 149, interim financing provisions are key to stable municipal revenue. Municipalities are concerned about interim billing and the ability to issue an interim tax bill that is rea-

sonable and provides the necessary cash flow needed to operate their municipalities. There is concern that the actual language employed in the bill will make cash flow exceedingly difficult. As set out in more detail in the appendix of this document, we are recommending an amendment to the bill to address this concern.

Further, to assist municipalities to cope with the fiscal challenges of the Who Does What transfer, the government must demonstrate how the bill will facilitate municipalities in levying more than 50% of their previous year's assessment if necessary if they are particularly hard hit by the Who Does What initiative. We would favour a general authority to do so rather than municipalities individually having to apply to the minister, as the wording suggests. As accountable governments, municipal councils can be trusted to exercise proper judgement in this regard. We don't need to have individual municipalities being forced to make individual applications to the minister in order to get an exemption in regulations.

Another challenge for municipalities is to deal with the impacts of the number of subclasses that will be allowed under Bill 149 for purposes of tax reductions. While we support the need for discretion to allow for local circumstances, we believe that any discretion should rest with the municipality, not the minister.

AMO would like to comment on two issues which are of great concern to our members: the implications of the loss of the gross receipts tax and the effects of the elimination of the business occupancy tax on the business improvement area program.

Firstly, municipalities would like to emphasize that the loss of the gross receipts tax must in no way set any precedent which would limit the powers of municipalities to seek revenues from municipal rights of ways.

Secondly, it has become increasingly clear to us that the negative implications for the BIA program must be addressed in this legislation. In fact, we highlighted this issue in our Bill 106 standing committee presentation as a concern and something which needed to be addressed, even though in principle we continue to support the elimination of the business occupancy tax.

We have learned at AMO that a number of BIA programs have been discontinued and many are in the process of determining whether they can survive. We believe that finding a way to salvage this program meets the goals of both levels of government to create jobs and to promote local economic growth and development. AMO would be pleased to work with this government to identify ways to address the BIA problem.

It is critical that the new assessment system promote fairness both across the municipal sector and within the assessment system itself. Municipalities are ready and willing to make tax policy decisions that are fair and equitable, and we will be accountable for those decisions. However, the assessment legislation under which we operate must promote fairness as well.

In making your decisions about payments in lieu and how these revenues will be shared, we urge the government to take into consideration the negative impact this could have on a number of municipalities. As you are well aware, some municipalities' budgets encompass a greater degree of municipal in-lieu payments than others. The impact will be different from municipality to municipality, and in some cases it could be extremely significant. In order to assist municipalities in setting their budgets, it is critical that the province reach a decision on payments in lieu very quickly and clarify a fair and equitable approach to revenue-sharing with the school boards as well. In addition, we wish reiterate our long-standing position that the province should live up to its commitment to pay its fair share of municipal taxes on provincial properties located within municipalities.

We would also urge the same consideration for fairness in the area of small theatres. Bill 149 provides for tax exemptions for the theatre industry in Ontario, both in the larger theatre sector in Toronto and the smaller theatres province-wide. In order to ensure a fair application of this exemption, we recommend that the legislation be amended to provide greater clarity about usage of the property and what reasonable amount would qualify for the exemption. Is it feasible that three days a year is sufficient to earn the exemption? We think that is something the government must deal with.

While AMO firmly supports giving municipalities greater flexibility when it comes to assessment, we also recognize the need for a clear and consistent approach to assessment issues to ensure a measure of fairness and consistency. With so many new responsibilities being thrust upon municipalities next year, providing clarity in advance will help make the transition to the new system easier.

We believe further clarity is required on such issues as:

How the data regarding an in-year assessment change will reach municipalities expeditiously. For example, the earlier in the year they can be captured for taxation, the better.

How the acreage will be determined for linear properties, for example, railway tracks, and how pipelines will be assessed.

How appeals for managed forests and farm tax rebate decisions are to be appealed to the Ontario Ministry of Agriculture, Food and Rural Affairs. We in AMO believe that the provincial government recognizes the importance of having an appeal process that is simple, consistent, fair and efficient. For this reason, AMO recommends that assessment appeals be handled by the same body and not split with the Ontario Ministry of Agriculture, Food and Rural Affairs.

In conclusion, AMO urges this government to provide clarity on the issues identified in our submission and as outlined in more detail in appendix A.

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While the principles of fairness, flexibility, revenue stability and consistency may be advanced in the two pieces of legislation, we all have a great challenge ahead of us to actually implement this new fair assessment system in Ontario. Given the magnitude of the changes and the anticipated tax policy changes, municipalities, as

should the province, will be carefully watching to ensure that these changes do not erode the municipal tax base. As indicated in our submission, Bill 149 needs to be further refined with a view to ensuring that the goals and objectives outlined in the legislation can actually be achieved.

Timing continues to be the key issue for municipalities. Tight legislative time frames will make it difficult for any upper-tier municipality wishing to delegate its tax-setting authority to the lower tier.

Finally, we acknowledge that the government is trying to provide support by way of an education program, but there still needs to be a great deal more done to assist elected officials, senior staff and the taxpayers in understanding the impending changes. As elected and accountable officials, we accept responsibility for communicating with our constituents, but we believe there is a role for the province to play in educating all stakeholders in the new system. We thank you for the opportunity to make a presentation to you and the members of your committee today.

The Chair: Thank you very much. We have approximately 12 minutes left. There will be about four minutes per caucus for questions. I'll start with the Liberal Party.

Mr Phillips: We too are seeking clarity. Honest to gosh, I used to be a businessperson, and I would never run a business like this, making these decisions and having no idea how it's going to impact. We've never been given any indication of how this is going to actually hit the taxpayers in April 1998. It's going to be quite an interesting time. The government, I'm sure, has impact studies, but they won't release them to us. They have to have had them to make the decisions, but they're keeping them hidden, in our opinion, because they know people would storm the Legislature, and understandably so; there would be some substantive changes. So we're operating in the dark. But I think you can help us a little bit.

They're eliminating the business occupancy tax. Every municipality we've talked to has said they're going to put it back on the commercial and industrial realty tax. Then the government has said, "We will help small business, though, by permitting lower tax rates on properties assessed at lower value." In our opinion, the business occupancy tax probably benefited small businesses; the proposal is to benefit small landlords. If you've got a small building, you'll have a smaller tax rate; a larger building, a larger tax rate.

Has AMO looked at the proposal of these differentiated tax rates on commercial and industrial properties? Have you any view for us on whether AMO thinks that's a good idea or has any problems with it?

Mr Power: As you know, Mr Phillips, we have been in support of the removal of the business occupancy tax. That has been a problem for a lot of municipal governments, wherein they were unable to collect, especially in an area where the businesses leased all of the equipment contained within —

Mr Phillips: That's a done deal. I'm just thinking of how to accommodate.

Mr Power: But looking at that, that's why we're in support of that. If we look at the tax ratios — and, Nigel, I don't want to put you on the spot, but maybe you can help me a little bit with them, because I'm not an accountant, and I don't really understand them and I don't deal with them on a day-to-day basis.

Mr Pouliot: Yes, you do.

Mr Nigel Bellchamber: As Mr Phillips pointed out, there appears to be the opportunity for several subclasses within the commercial and business classes that would allow for graduated tax bands. If it doesn't result in a progressive rate, that is, if the first X dollars of every commercial property, for instance, isn't treated the same and the second Y dollars isn't treated identically, then it would have the effect that you point out. However, our understanding at the moment is that the intention is that the first X dollars of every property, regardless of the total value, would be treated in a similar fashion. So it could potentially have a beneficial —

Mr Phillips: That's not how it would work. Let's say you are leasing property in a building worth $500,000. It will have a substantially lower tax rate than a building worth $5 million, because the building worth $5 million will have one rate for the first $500,000, another rate for the next $2 million, and then another rate for the remainder, so it will be a substantial advantage for small property owners and maybe that's what they want, but it's not necessarily a substantial advantage for small businesses, because in my neck of the woods a lot of small businesses rent space in large buildings, industrial malls, and that industrial mall will not have the same benefit as a small one.

I had another question on education and it's very unusual when we're dealing with property taxes, but the major property tax bill is over in another committee, education, where a third of your property taxes that you will have to raise will be set by the cabinet by regulation. You'll never know what they're setting. They'll just write a regulation and send you a bill, because all of the education part on businesses, which is probably 53% or 54% of your business property taxes, and half of the old residential education taxes will be set by regulation. As I say, the province will simply say to Geraldton, "Raise us $1 million and send the cheque over to the local school boards." They have said they are going to freeze taxes, although I'm not sure whether they're freezing the educational mill rate or the amount of money they are going to raise on taxes.

Has AMO taken a position on this, and have you any advice for us on the proposal on education taxes. The reason I raise it is that it is $6 billion worth of property tax set by regulation.

Mr Power: As you're aware, Mr Phillips, municipalities have never had the opportunity of having anything to say about the educational mill rate. That was always set by boards of education. Municipalities were handed a bill, and they were expected to levy for it and turn it over to the school boards.

Under the system that the government is proposing, instead of the local school board handing you the bill, the province will hand you the bill, so that in terms of a

change in direction from the municipal point of view, we will still get a bill. It will be less than it was in the past.

Mr Phillips: So AMO doesn't really care one way or the other.

The Chair: Thank you, Mr Phillips. We have to move to Mr Pouliot now.

Mr Pouliot: It's a renewed pleasure, Michael. I recall vividly that about 25 years ago we sat on respective councils, through the courtesy of our electorate, and exchanged views. I valued our association then and certainly ever since. It's a plus, and I have benefited a great deal. AMO does benefit by way of your commitment, integrity and expertise.

You must be filled with anxiety. These are exciting times, challenging times. You are about two months before the massive changes of responsibility to the 95% of the population you represent through AMO. The fiscal year starts on January 1. The province has embarked on the largest assessment endeavour ever in North America, 3.8 million units. At least 500,000 will be appealed; the ministry says that. The tapes will not reach before the end of April at the earliest. You are seeking by your representation the ability to go above the 50% presently allowed for, the interim tax levy. Your interim tax levy, inclusive, will include the business occupancy tax. Some people are expecting a decrease in taxes. They heard the Premier. I'm not luring you into that kind of minefield, Michael, but it's a bit of a mess.

I just came back from the riding of Lake Nipigon and was handed one of these documents, and it raises more questions than it answers. "Who Does What" is indeed the line put forward by the government, but they want to know who pays for what and when. Where will the money come from? What about the cash flow that you have mentioned? What are your comments?

Mr Bellchamber: You're quite right. The cash flow problem could be quite significant, and it will vary from jurisdiction to jurisdiction, whether it's upper tier, lower tier or whatever, and that was why the recommendation was that municipalities be entrusted to determine the amount that they levy by way of interim bill to meet their cash requirements.

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Mr Pouliot: In our small world I have to believe some people sometimes, and the highest authority in these endeavours is the Premier. The Premier has said to us to expect anywhere from a 5% to 10% decrease in municipal taxes, and it has also been said repeatedly that this is revenue-neutral. If my taxes go up, is that revenue-neutral? A lot of people expect their taxes actually, if not to go down, to be at the same level.

Mr Power: Mr Pouliot, we at AMO have said consistently that it is the responsibility of municipal government to set the tax rate at a municipal level based on the requirements to deliver the services that our citizens want, expect and need.

We accept at face value the Premier's pledge to us that the realignment of responsibilities will be revenue-neutral. We have no reason not to take his word, and so until evidence can be put to us otherwise, we continue to accept the word of the Premier of the province in this regard.

The Chair: Time is effectively up. We'll move to the government caucus now.

Mr Grimmett: I would like to congratulate you gentlemen on a very clear presentation. The brief itself is set out very practically, with the recommendations at the end.

I just had a few questions arising from your presentation. I note on page 3 that you're recommending that the wording "similar organizations" be removed. On page 4 you have made some recommendations regarding the interim levies. I have a question for you on page 5. In the middle paragraph you say that you don't want a limit on powers of municipalities to seek revenues from municipal rights of way. Can you clarify that for me? What do you mean by "municipal rights of way"?

Mr Power: We're looking at things. If you do away with the gross receipts tax, which as you know was essentially paid by Bell Canada because other telephone suppliers didn't, we're concerned that that not become a methodology for eliminating the ability of municipalities to receive revenue for railway rights of way, Hydro rights of way, those kinds of things, highways.

Mr Grimmett: So you're not talking about the road allowances that municipalities own? You are talking about them as well?

Mr Power: Yes.

Mr Grimmett: In the final paragraph on page 6, you're talking about smaller theatres. Are you concerned here about possible abuse, that theatres might start to claim that they are theatres when they are not being used?

Mr Power: We don't think that the vast majority of people involved in the arts would, but there is always the occasion where somebody chooses to utilize a piece of legislation or a regulation to further their own interests rather than the interests of the community at large, and so we're saying that it would be in order to have some parameters to define the small theatre.

Mr Grimmett: I notice your recommendation at the end suggests "theatres owned or operated in leased facilities." Is that the recommendation on how to get around that problem?

Mr Power: Where are we?

Mr Grimmett: Page 12. Or are you recommending a certain number of days that they be used for that? I just want to be clear on what your recommendation is.

Mr Power: That's the issue, and we're turning it back to you on the government side and saying: You have put it forward. We're suggesting to you there's a problem here. We're asking you to fix the problem you have created.

The Chair: Thank you very much, Mr Power and Mr Bellchamber, for coming here today.

BREWERS OF ONTARIO

The Chair: Will Mr Jan Westcott, the executive director of the Brewers of Ontario, come forward please, and Ann Zegarchuk from Molson Breweries. You have half an hour which you can use entirely for presentation. If

you have time left over, I'll divide it equally among the parties for questions, but your time is for you to use as you wish. For the record, would you please introduce yourselves.

Mr Jan Westcott: Thank you, Mr Chairman and committee members. My name is Jan Westcott. I'm the executive director and CEO of the Brewers of Ontario. That's an industry trade association that represents licensed brewers in Ontario. With me today — I'll start on my left — is Iain Fraser. Iain is with AEC Valuations and is an adviser to the brewing industry on these issues. John Wiggins is the president and chief executive officer of Creemore Springs Brewery Ltd up in Creemore and coincidentally is also chairman of the Ontario Small Brewers Association. On my right is Ann Zegarchuk. Ann is the vice-president of taxation for Molson Breweries of Canada.

I appreciate the opportunity to speak to you today. I'm going to make a very short presentation, and then we will entertain some questions. The industry I represent and the companies I represent are about 12 — the number changes — licensed brewers, large and small, and as I say, my colleague John Wiggins represents most of the smaller brewers, but the fact is that the industry we talk about represents 98% of the business that exists in Ontario.

Our business is one in which over the last number of years we have faced tremendous challenges, perhaps more so than many other industries. As the Canadian market opened up to American beer with the liberalization of trade between provinces and the FTA and NAFTA, brewers, both large and small, had to adapt in order to survive, and we have done many things to try and do that.

Our contribution to the Ontario economy and to provincial revenues is substantial. Of the total direct jobs in the beverage alcohol industry in Ontario, 74% are accounted for in the brewing business. Our industry spends about $500 million in Ontario each year operating our businesses. We're kind of unique in the sense that of all the things that it takes it run our business — and we are primary manufacturers; we take raw materials and turn them into finished products — the only thing that we don't buy in Ontario pretty much is barley, because we don't grow barley in Ontario. But we tend to alienate our friends in the west a little bit because even though we don't grow barley in Ontario, we ship all the barley we buy in Alberta and Saskatchewan to Thunder Bay, and Canada Malting turns it into malt for us and supports 60 jobs up in Thunder Bay. I guess hops would be the other one. Virtually everything we use in Ontario is sourced here in Ontario.

We do business with 8,000 different companies in Ontario, the vast majority of which are small business, in conducting our business in the manufacturing, marketing and distribution of our products. Directly we generate about 6,100 jobs in the business and another 20,000 jobs indirectly. We have invested about $300 million in the province over the last five years to continue to evolve and grow our businesses. We pay about $24 million a year in property taxes, and we and our customers last year contributed about $830 million-odd to the government by way of sales and commodity taxes on our products. We are significant taxpayers. All in, our industry and our products and our consumers directly contribute about $1 billion to the revenue stream of the province. We also make significant contributions to the cultural, artistic and athletic facets of the province and are quite proud of those contributions.

Notwithstanding that we have worked hard to compete in the Ontario market, we have faced difficulties, and we continue to face difficulties, from declining consumption, increasing import volumes and a relatively new phenomenon over the last couple of years, unregulated and untaxed you-brew commercial producers who are competing directly with us.

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Our consumption over the last five years has decreased by 9.3%. Imports are up 14% and the unlicensed and unregulated you-brew and you-vint outlets have grown to over 450 outlets. I contrast that with the 432 Beer Stores we run. It has been a challenging environment.

We certainly are striving to achieve a competitive footing, and we have been very, very successful — notwithstanding the opening of the markets and a lot of stiff competition from much larger companies in the US and elsewhere — in building our export business. We're up almost 50% over the last five years. Clearly, undisclosed or hidden taxes are a major factor in our being able to continue to grow our business both here and abroad, but particularly in the export market. Innovation and new technology that we have invested in has helped reduce production costs, but we have to be mindful of our competitive stance versus some of our larger competitors.

What's hard to read there is that Anheuser-Busch, whose main plant is in St Louis, produces about 14.7 million hectolitres of beer in St Louis, and they pay property taxes of about $7.8 million; we, in Ontario, produce about 10.2 million hectolitres of beer in our plants, and our property taxes are running around the $10-million mark — just to give you some sense of what that means. We feel strongly that our major breweries and our smaller breweries are contributing more than their fair share of municipal and education funding, particularly when compared to our direct competitors in the United States.

We want to talk to you about four specific things today. We think Ontario brewers should have a level playing field available to all Ontario businesses. There should be only one business class of property taxes, not separate commercial and industrial classes. We have historically been overtaxed for property tax purposes. Business tax on brewers is assessed at 75%, the highest in Ontario, and classification as an industrial property means the industry is generally taxed about a third higher than businesses which are classed as commercial, yet increasingly we see our competitors emerging and classifying themselves as commercial versus industrial enterprises. We don't believe that we should be targeted for special taxes, and we feel that the combining of industrial and commercial classes of property into one class would prevent targeting.

We have some views that we'll share with you on property tax reductions not being phased in, and there is a very specific issue to the brewing industry, one having to do with the assessment of tankage, and we don't think that we should be penalized for producing in Ontario.

We feel that the industrial and business classification of property tax into one business class for property tax purposes is the right approach. The initial creation of industrial and commercial classes of property back a number of years ago wasn't a political determination but really was an outfall of actions that were taken in 1970. Our properties, along with many other businesses, developed significantly our industrial properties during the 1950s. Commercial development of property took place during the 1960s, and we saw during the 1960s a decrease in the value of the industrial properties due to depreciation and to an increase in the market value of the commercial properties, largely driven by speculation.

The constant assessed values of industrial and commercial property were frozen in 1970 with the result that taxes on industrial properties have been increased at a much greater rate than taxes on other classes.

Industrial properties are significantly overtaxed relative to commercial properties. There's a huge variation in tax rates across Ontario as well. We think uniform treatment would reduce the administrative complexity. We operate in 16 different communities around the province, and this is a significant issue for us. There is no public policy reason that industrial property should pay more than commercial; in fact, industrial properties consume fewer municipal services by and large. Bills 106 and 149, as proposed, perpetuate this tax discrimination.

For the brewing industry, the continuation of different classes is quite unfair. You-brews and you-vints and brew pubs, whose beer market share is increasing at a pretty dramatic rate, become classifies as commercial and will be taxed at a lower rate. The competitive disadvantage will be exaggerated where the you-brews and you-vints or brew pub qualify for lower yet, small business tax rates. Commercial and industrial properties should pay the same rate of tax, regardless of where they're situated or how they deem themselves to be falling into the market.

Taxes under the proposed system are governed by tax ratios or bands of fairness which are going to be set by the province, and transition ratios which will be set by municipalities. Transition ratios can be outside the band set by the province, but the ratio cannot exceed the ratio of the tax on a class in 1997, related to the residential taxes that year. Municipalities could maintain the disparity of treatment that exists today by setting transition ratios at today's levels of tax, and what we understood this exercise to be about was getting to equity to the greatest extent possible. There is no mechanism in the proposed legislation to bring transition ratios closer to the bands of fairness, and our concern is that those inequities could continue on forever.

We don't believe that targeting a specific industry should be permitted. Under the old act, the minister could establish classes of properties. In some municipalities, classes known as large industrial were created. This resulted in targeting specific industries and in some cases specific taxpayers — again, somewhat inequitable. A current example for us where we operate plants is Etobicoke. The relative tax burdens are that if residential is a base of 100, commercial is 2.47 times that, yet we're at just over 5 times that. We think that's particularly unfair and is going to be regressive, certainly in terms of building competitive businesses.

Historically, the brewing industry has been the target for special taxes. Targeting impedes competition, both nationally and internationally. Property taxes should not be used to penalize taxpayers who operate within the same provincial boundaries. I heard a quote this morning which I thought was pretty good: Property taxes should not be the basis on which industries compete across the province. There are other, much more appropriate ways for us to compete than to be given either incentives or disincentives through the property tax system.

Under the proposed legislation, municipalities may prescribe additional classes and subclasses of properties, and Bill 106 and Bill 149 allow the minister to make regulations in a much broader context, all of which increases the potential for targeting. In fact, much of it is on a discretionary basis, which is a significant concern. We think one of the ways of dealing with this is to combine and have one business class for both commercial and industrial. That would eliminate a number of these problems. In fact, doing that would be consistent with what the government said and the definition it established in the Education Quality Improvement Act, where there are just two taxes: There's residential and there's business.

We also don't believe that tax decreases should be phased in. We have a situation where people have been paying inappropriately and unfairly much more than their share for a long period of time. It's a bit analogous to finding out, with someone you've convicted of a capital crime who has been sitting in jail for 15 years, that the DNA now says he's innocent but you don't want to let him out right away; you're going to phase him out. That seems rather unfair to us. We think these inequities need to be addressed and resolved as quickly as possible, recognizing the sensitivity that exists around the other end of the scale of having to bring people up.

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A phase-in which is spread over many years will greatly increase the complexity relating to the reassessment and increase the administrative cost to government, particularly as we get three years out and we start then having evaluations later on. I'm not sure how people are going to keep track of that, it's going to become so complex. A tax decrease on reassessment represents an acknowledgement that the property has been historically overtaxed and that taxpayers have been contributing much more than their fair share while other have been underpaying. While it is easy to argue that the policy decision to phase in tax increases may be appropriate, financing that decision by taking money that shouldn't have been collected in the first place is quite unfair.

The last issue I want to raise with you — I'm just about done — has to do with the specifics of our business, which is the brewing of beer. Brewing tanks are fundamental to the brewing of beer and should continue to be exempt from tax. We can't do our business, we can't make our products, if we don't have tanks. Since 1953, the policy has been that process tanks utilized in the brewing process are exempt from tax under section 317. It would appear that assessors have been directed to include these tanks when setting values for the 1998 reassessment. Including these tanks will further decrease the competitive position of the brewing industry by directly increasing our costs. Brewing tanks are production machinery and equipment that are used to make our products, and they should continue to be exempt from taxation.

So we submit four things to you this afternoon:

(1) That there should be a level playing field for all businesses. There should be one class of business tax.

(2) We should eliminate to the greatest extent possible targeting either by penalizing or giving incentives to taxpayers.

(3) Over-assessed taxpayers should start to see the benefits of these changes as quickly as possible.

(4) In terms of the brewing industry, process tanks should remain outside the assessment base.

The Chair: Thank you very much for your presentation. We have about four minutes per caucus for questions, starting with the NDP.

Mr Pouliot: Thank you for a refreshing and innovative presentation. I will only focus briefly on two of the four recommendations you have. I don't know how much impact taxing those tanks would have, but — lifelong learning — I would wish to know at some point. It's obviously quite important.

You mention that should a decrease in taxes occur, that process should not be phased in. It's an admission that people have been overburdened, and why not give them the rebate now? Should an increase in taxes be phased in?

Mr Westcott: That's a difficult one. I understand the problem: As one goes up, one comes down. One of the approaches that I think should be looked at is that all the people who are paying too much today might be looked at as one class and come down. The short answer is that I think there are ways of working it out so that for those people who are overpaying, that period of time can be shortened as much as possible, without necessarily impacting the people who are going to pay more.

Mr Pouliot: For the sake of presenting it in the best possible way, I loaded the argument by assuming that this would be revenue-neutral, that the bottom line was not impacted.

The reason I said this presentation was innovative and imaginative is that you mentioned one end rate of taxes for both commercial and industrial. With or without threshold? For instance, a small bakery would pay the same rate of taxes as the much-maligned bank?

Mr Westcott: The reality is that we're all doing business in the same community, we're all making a contribution, and yes, we think that's a reasonable prospect. Obviously there are going to be differences in the size and value of the operations that will be reflected in the absolute dollars, but as a principle, we think it makes sense for everybody.

Mr Pouliot: You're about to get an interest-free loan from the Royal. I mean, this is a very good argument that they would like to hear, that they would be taxed at the same rate — there's quite a range here and the government has some thresholds and it's a moving world. Unless we build in a progression of taxes — sure, they would pay more, but the rates must reflect the differences of the industry they're in. I like your approach. It's candid and straightforward, but as you begin to develop those themes — this is the comment I'll leave you with — you find out one is a special sector. For instance, mining is not renewable and fishing is seasonal and farming is dependent on futures markets, so all those things have to be factored in.

Mr John Wiggins: If I may make a point, I'm smaller than most bakeries or mining areas, and many of the breweries I represent are. We pay tax in many other ways that are a little tough, and to be hit with these taxes at this rate becomes terribly unfair to us. Let's say the situation you prescribe, again there is an inequity there.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. It's interesting to listen to a more sensible presentation than I have been for the last day and a half. I've just come out of the education committee, and it's been a little different.

Is the decrease of 9.3% in the consumption a decrease of all beer, or is that just in the ones you associate with the you-brews?

Mr Westcott: In Ontario, the licensed industry represents about 95% of all beer; there's 5% which operates outside the licence, which would be largely you-brews, some smuggling, some bootlegging and that sort of thing. We represent 95%. Of that 95%, our membership has seen a decrease in their sales of 9% over the last period of time.

Mr Rollins: The wine industry has seen a bit of an increase. Does that have something to do with the beer? Is that related?

Mr Westcott: There are a lot of different factors. I wouldn't say that our decrease is their good fortune directly. As you know, I used to be the president of the wine institute, so I have a pretty good knowledge of both industries. The fact is it's demographics, it's lifestyle, it's taxation. There is a series of factors. And let's not kid ourselves: Many of you will remember the summer of 1992, when we had no summer; our business went down by 6% in one year alone. So there are many, many factors. The fact is, it's one of the issues we're coping with, successfully so far, but it's a constant pressure on the business, and what it means is that our ability to take on additional costs is quite restricted.

Mr Rollins: I know you've made the request to have your tanks remain exempt because you're in the brewing industry, but if you just turned your head around and put a tax assessor's hat on and went over to the industry across the road, can a portion of his be not taxed too? Is it fair?

Mr Iain Fraser: I think it's a generic issue. I don't think it would be just brewing tanks. It would be tanks used in the mining industry, tanks used in any production process. Today, they're not taxed.

Mr Rollins: In the refinery business, are the tanks taxed? I believe they are, but I could be wrong.

Mr Westcott: To give you one other example, if General Motors or Ford invest millions of dollars to put a new assembly line in, that assembly line is not taxed; it's part of their manufacturing base. Well, tanks are part of our manufacturing base, and that's the argument we would make. You can't make beer without that. Ford and General Motors and the car guys would say you can't build cars if you don't have an assembly line with robotic arms and all that sort of stuff. If you're not going to tax that, how can you turn around and tax our basic manufacturing machinery?

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Mr Ted Arnott (Wellington): I'm getting very thirsty listening to you. Like my friend Mr Rollins, I'm concerned about the brewing tanks issue too, and I hope we can undertake to look into it for you and get back to you with some sort of response, because you certainly seem to make a very compelling point. It would appear that assessors have been directed to include these tanks. You're certain that the assessors have been directed to include the tanks?

Ms Ann Zegarchuk: Roughly about six months ago, we were informed that the assessors were told to assess tankage, and in fact various members of the brewing community and other business communities were asked for a listing of their tankage. At that point, we did not provide it to them; they said it was going to be used when they were doing the reassessments. Recently, I have heard that as a result of the number of reassessments that have to be done, it is simply not within the realm of possibility to now start placing evaluations on tankage; however, they did say they would like to. But at this point it's not as big an issue as it was six months ago.

The other point I would like to make is that there are two types of tankage. The process tanks are comparable to, as Mr Westcott said, the manufacturing lines of any other company, and those are fairly significant in the brewing industry. And then of course there are the storage tanks for storage of materials, which in all industries are taxed as structures.

Mr Phillips: Just so I understand your issue, right now you pay $24 million a year in property tax. Did I understand that you pay it 70% business occupancy tax?

Ms Zegarchuk: It's 75%.

Mr Phillips: And that is on the basis of the realty tax you pay on industrial? Are all your properties assessed industrial?

Ms Zegarchuk: Yes.

Mr Phillips: All of them, so you pay a BOT of 75%. I guess the bill will help you in one respect, and that is limiting the business occupancy tax and then it pools back on to the industrial realty tax. How much do you think that will save your industry a year?

Mr Fraser: I don't think it's going to save us anything, because at the end of the day, it's supposed to be a neutral circumstance.

Ms Zegarchuk:. There are a number of factors there. First of all, we have no idea what the mill rates are going to be or indeed what they're going to be in different areas. We have no idea what's going to happen with the education taxes and how they are going to be imposed upon industry and how they're going to be allocated among, say, commercial, industrial etc. At this point in time, not only is the industry not able to calculate their 1998 business taxes for planning purposes, but I agree with Jan; I would say it is probably highly unlikely that there is going to be an actual decrease.

Mr Wiggins: I'd like to speak to that, if I may. My little brewery happens to be in an old hardware store — it used to be commercial; it's now industrial — in the little village of Creemore in the township of Clearview, and the township of Clearview has a very small industrial base. We're about it. Anything that is going to reduce the industrial base at that local level is going to frowned upon if in fact it's going to be set at the local level. To answer your question, yes, the large industrial base areas are more likely to find it revenue-neutral; we'll find it a bit of a kick in the rear end.

Mr Phillips: The government essentially has said that the BOT is going to be put back on the industrial realty tax, and the BOT across the board will take realty taxes up about 40%. If you follow that logic, you're eliminating the BOT, which is the 75% — you figure that equation out — and you're moving to 40%. If you were paying $8 million a year in BOT, it's going to drop to $5 million. You must have done that calculation. You are quite worried about making sure you get the tax break quickly, and I assume that was for a reason.

Mr Westcott: I take your point. That's one of the reasons we're a little nervous about targeting. The fact is, when you talk to municipalities, they're not in a position yet to tell us, as Ms Zegarchuk said, what next year is going to look like. What we do know, just from informal discussions, is that they think they're going to get to neutral, so whatever benefits may appear there —

Mr Phillips: I know. I think you made a good point.

Mr Westcott: There's this tremendous ability on the one hand to make it more equitable by making the rules clear, but then they're putting in a whole bunch of things that fiddle it.

Mr Phillips: If in the city of London Labatts pays $1 million less in property tax, the other property taxpayers will be picking it up, and that's always challenging.

Mr Westcott: Or we will be back to the targeting, so that no matter what happens —

Mr Phillips: That's my point, so I understand: your targeting and your accelerated tax cut thing.

The Chair: The time has expired. Thank you very much for your very interesting presentation.

The committee is adjourned until 9 o'clock tomorrow morning.

The committee adjourned at 1717.

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XC 25
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ISSN 1180-4386

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de l'Ontario
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Published by the Legislative Assembly of Ontario

Service du Journal des débats
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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Wednesday 22 October 1997

Mercredi 22 octobre 1997

The committee met at 0912 in committee room 1.

FAIR MUNICIPAL FINANCE ACT, 1997 (No. 2)

LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS (N^O 2)

Consideration of Bill 149, An Act to continue the reforms begun by the Fair Municipal Finance Act, 1997 and to make other amendments respecting the financing of local governments / Projet de loi 149, Loi continuant les réformes amorcées par la Loi de 1997 sur le financement équitable des municipalités et apportant d'autres modifications relativement au financement des administrations locales.

BOARD OF TRADE OF METROPOLITAN TORONTO

The Chair (Mr Terence H. Young): Good morning, everyone. We're on our third day of public hearings of the standing committee on finance and economic affairs. Our first presentation is from the Board of Trade of Metropolitan Toronto. Could you please identify yourselves for the record? Then you have half an hour to use as you wish; if you leave time for questions, I will divide it evenly among the three parties that are here.

Mr John Bech-Hansen: Thank you very much. I'm John Bech-Hansen, the staff economist with the Board of Trade of Metropolitan Toronto. With me is Michael Bowman, who is a volunteer member of our taxation committee.

Once again we'd like to take the opportunity to congratulate the government for bringing in a modernized property assessment system. As we have said before with Bill 106, it's the first provincial government to have the courage to bring in a new assessment system since the province took over the function in 1970.

We think there is some room to make improvements in Bill 149, but I want to draw attention first to one general overriding concern the board of trade has with both bills, in that in a sense they both strive to go quite far in preserving certain aspects of the status quo that we have in the property tax system today. I think one of the most important aspects of that is that we're moving to a system where there will be tax ratios in each property class and the municipalities will have some control over the distribution of property taxes between property classes, but there is no effort made to compel municipalities to bring those tax ratios closer together over time.

A second element, which comes in Bill 149, where we think there is too much of an attempt to preserve the status quo is bringing in graduated tax rates in the commercial class. That's most of what our notes speak to here. The idea of graduated tax rates in the commercial class apparently originated with the David Crombie Who Does What panel, which expressed the concern that identified small commercial properties which form a critical part of the character of local communities should be eligible for some special tax treatment, lower tax treatment, in relation to the rest of the commercial class.

I think that was a recognition of certain problems which arose in 1992 when Metro attempted to bring in MVA, because it was found that that was going to lead to very large tax increases on small retail properties. That arose because those types of properties have traditionally been underassessed in relation to the rest of the commercial property class. It has generally been understood that the reason they're underassessed is that a lot of small retail-type properties in Metropolitan Toronto do have a higher and better potential use, which tends to cause a certain speculative component to be embodied in the market value of those types of properties. The other consideration is that small retail properties did benefit from the 30% business occupancy tax rate, which is one of the lowest rates.

In looking at Bill 149, we can see that the David Crombie concept was greatly simplified. Instead of attempting to identify small retail strip properties specifically, there is simply a proposal to establish bands of value within the commercial class, to which differential tax rates will apply.

Much of what follows in our paper is an analysis of why we think this is not really a good idea. We sympathize with the idea of trying to bring favoured tax treatment to certain small business properties, but we have a general idea about that, which we'll explain at the end.

(1) First, the main problem with graduated tax rates is that it assumes that small businesses occupy small buildings and large businesses occupy large ones. By and large that is true, but it is certainly not universally true, so in a sense this becomes a program to assist small buildings and not small businesses. The practical effect of having gradu-

ated tax rates is going to be highly adverse for some. A muffin shop in First Canadian Place is going to be penalized by graduated tax rates; conversely, some chartered banks could derive tremendous benefit from this, because they tend to have many bank branches that occupy small freestanding buildings.

(2) The second observation is that 700 municipalities have reassessed in Ontario since 1970. All have done it without the benefit of graduated tax rates, and it has never emerged that any particular type of commercial taxpayer has been particularly hard hit by that.

(3) A third point — and this speaks to our general concern about the legislation altogether — is that it treats the underassessment of certain types of property as something fair and deserving of preservation rather than an aberration which needs to be corrected. We always feel the higher priority should be placed on providing tax relief to those properties that have been overassessed and thus carrying the freight for many years, particularly here in Metro.

(4) The fourth point, and this is more of a Metro-specific one, is that the preliminary reassessment data we've seen do indicate that there are going to be very, very substantial tax shifts just within the commercial property class and the other property classes. We think that's going to overwhelm any attempt by municipalities to meaningfully address those impacts through the use of variable tax rates. For example, it's shown that commercial businesses in the borough of East York can expect an average tax increase of 58% from reassessment alone, and that's small, medium and large businesses alike.

(5) Another point we want to raise is that small businesses have identified through their business association, the CFIB, that they don't wish to be cross-subsidized through different types of commercial businesses. That really is the intent of these tiered tax rates. They noted in their submission to this committee on April 8, 1997: "The CFIB opposes special rates for certain tax classes. The proposal to allow for new subclasses would in effect recreate the business occupancy tax distortions." They believe the marketplace is the best arbiter of business values and ability to pay. The CFIB agrees, as we do, that the real problem in the whole tax system is the inequitable distribution of the tax burden between property classes, predominantly residential and non-residential taxpayers, and it's the obligation of municipalities to begin to address that. That's the real solution to taxation of business.

(6) The sixth point is that graduated tax rates could potentially give rise to situations in which certain types of businesses could be running afoul of Ontario's anti-bonusing laws. I believe AMO made this point in their presentation to you on this already.

(7) Graduated tax rates could fail the test of horizontal equity, meaning that if you have two equally situated retail businesses with an equal size of real estate in their portfolio, but if one happens to operate out of a single, large, valuable property, they're apt to be paying quite a bit more property tax than one which might have the same amount of real estate but operating, say, out of 10 small stores rather than one large one. Why the difference in tax treatment for two equal retailers?

(8) The eighth point is that it could just distort the property marketplace. Wherever municipalities might choose to set the thresholds for different tax rates could lead to all kinds of tactics aimed at tax avoidance and it could distort the property construction market in very much the same way that the commercial concentration tax did between 1990 and 1993. It also tended to have threshold effects, because that tax did apply only to commercial property which exceeded a certain area threshold.

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(9) The final point is that we think it's going to prove divisive within the business community. Our organization is made up of small, medium and large businesses, and we don't like the idea of having to debate with municipal councils how they should treat different types of businesses. We would prefer that there be a level playing field between all of them and not have municipal councils making arbitrary judgements on the types of businesses that deserve favoured tax treatment.

First of all, our recommendation is that we don't have tiered tax rates, that all provisions in the legislation making reference to tiered tax rates be eliminated. By way of something of a solution to this problem, we think an appropriate course would be for the Minister of Finance to make regulations, as is provided for in Bill 106, to provide that the current value of eligible land be based only on current use if the land would otherwise have a higher current value because of other uses to which the land could be put. The adoption of those regulations is provided as a municipal option in Bill 106. So there is an opportunity there to shift the whole premise of property valuation in Toronto to value of property in its present use rather than the definition of current value in Bill 106, which is really very little from market value assessment.

That summarizes what we have to say about graduated tax rates. The rest can be dealt with very quickly. I really want to draw strong attention to symmetrical phase-in provisions. We mentioned this when we appeared here speaking about Bill 106, but we really want to drive this home once again because it is very important. One of the main reasons the provincial government rejected the 1992 MVA plan in Metro was because of the incredible unfairness in the phase-in provisions. The way it was going to work was that all residential taxpayers who were entitled to a tax cut would have got it right away, while residents who faced an increase would have had them phased in over several years. To pay for that scheme, business taxpayers were going to face exactly the opposite sort of phase-in scheme: immediate increases, phasing in of decreases. That would have caused a tax shift of about $200 million to the business tax in the cushioning of residential homeowners.

We really think the legislation has to be amended as necessary to specifically prohibit differential phasing in of assessment-related tax increases and decreases within a single property class; in other words, if there's going to be a tax change in different commercial properties, with some

getting an increase and some a decrease, that they all be phased in in equal amounts over an equal period of time, and that the same should apply in the residential classes.

On the issue of vacant industrial property, the creation of separate classes to place vacant property in was an appropriate policy response to provide the tax relief that owners of vacant non-residential property need. The concern here is that the news release that accompanied the release of the bill indicted that vacant commercial would be taxed at 70% of the commercial rate and vacant industrial at 65%. Just to make the point very quickly here, this is less relief than is implicitly provided already to vacant commercial property when you factor in the 15% reduction in the mill rate and the absence of business occupancy tax. The Fair Tax Commission determined that the average amount of relief is more in the neighbourhood of 41%. Since that relief was legislated in various pieces of legislation, we think that could be entrenched in the bill as well and that the reduction should be no less than 40%. This would simply be providing what is already provided today.

The final point, on rights of tenants: We've been involved with the retail fair tax group, which I believe you've met with already. We are supportive of what they're asking for. I know they've laid out several alternatives by way of how far you might want to go, but certainly from the standpoint of access to information and requests for reconsideration or appeal, it's something we support. I won't go into the details of what their position is, because I believe you have it in hand.

That's it, and we'll take questions now.

The Chair: Thank you very much. There are approximately 18 minutes left, and we'll start this morning with the government caucus, for about six minutes.

Mr Bill Grimmett (Muskoka-Georgian Bay): I want to thank the board of trade for their presentation and for the suggestions they're making.

First of all you praised the provincial government for its courage in getting into this difficult area, and then you indicate that you would rather have had the province compel municipalities to bring effective tax rates to each property class. We feel that the use of the graduated rates provides municipalities with some opportunity to use their understanding of their local situation to help preserve some of the community flavour in their business sector. That certainly is something we've heard from some municipalities around Ontario, in talking to them. Do you have any comment on that?

Mr Bech-Hansen: Are you speaking about the graduated tax rates idea or tax ratios in general?

Mr Grimmett: The whole idea of allowing municipalities to some extent to treat different classes differently.

Mr Bech-Hansen: We have always recognized the idea of tax ratios — we used to call them variable mill rates — the idea that municipalities could have some control over the tax burden in each property class. We always felt that was a politically realistic way to deal with the prevailing overtaxation of business property across the province in relation to residential property. We knew it was not going to be realistic for us to ever say, "We just want a uniform tax rate for everybody," because that would tend to cause phenomenal tax increases in the residential class. I guess all we're asking for is that consideration be given to somewhat more of a compromise position.

Maybe our fear about this is a little bit motivated by what we hear from the two mayoral candidates in some of their debates when they've been posed these questions about how they intend to make use of these tax ratios. They're pretty ambiguous, but they certainly have the residential voter very much in mind when they're thinking about how they're going to use these powers.

Another thing on the plus side of the way the government has handled this is that when you have tax ratios and a uniform assessment system across the province, businesses will be able to directly compare in a very transparent fashion what their real burden is in one municipality compared to another. That might cause some motivation for the municipality to reconsider what it's doing.

None the less, the residential taxpayers really reign supreme, of course, because they are the voters, so we're not apt to receive a lot of sympathy around the province. That's why we really feel that perhaps some consideration could have been given that while there's an eight-year phase-in opportunity of assessment changes, perhaps that same time period could have been used to compel every municipality in Ontario to bring their tax ratios within whatever the allowable ranges are set by the province. We have no idea what those are yet, but that's really essentially what we're asking for.

Mr Grimmett: I should mention in passing that in the part of the province where I come from, there's a feeling among cottagers that the subsidization is the other way around, that the residential taxpayer subsidizes the commercial-industrial.

On page 3, you make a comment about the lifting of the business occupancy tax and the fact that you support it because it simplifies the assessor's task. You would have many members, some of whom have already been before us to make the case — they were actually asking us to have the assessors continue to do that so they can sort out their leasing arrangement with the landlord.

Mr Bech-Hansen: That's right. That's the retail fair tax group; that's what they're asking for.

Mr Grimmett: Our assertion is that the marketplace should determine the relationship between the landlord and the tenant. In most cases, they have leases that already deal with this issue. What's you comment on that?

Mr Bech-Hansen: We're sympathetic to what the retail fair tax group is asking for, but ultimately, the government has to decide for itself whether the potential outcome of providing the group what it wants — which is probably a higher volume of appeals and perhaps more work for assessors; I'm not quite certain about that — is worth it. But there is an issue of preservation of existing rights, which is something that attention has to be paid to. Regardless of what the retail group is asking for, it's not quite as complicated as it is presently, because assessors today not only have to track the cost associated with each

parcel of rented space in the building and use that to determine assessment; it's that they no longer have to track what type of business is occupying a type of property for the purpose of determining the business occupancy tax. That is a savings by getting rid of the business tax. Now it's just an apportionment of the realty portion; there's no more separate assessment for occupancy. That, as assessors told us, is sometimes a tricky thing to do, to determine exactly what type of business is being undertaken.

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Mr Grimmett: Don't you think your members are in a position to determine in the marketplace their relationship with their landlords or tenants in terms of sorting out how the taxes get paid?

Mr Bech-Hansen: The case has been made that the market can do that, but none the less, we feel sympathy for what the retail group is working for, just by way of preserving certain existing rights they have.

Mr Michael Bowman: I'd just like to add the caveat that the assessors use a fair market rent; in other words, they don't necessarily rely on the contract rent. Of course, for the landlords and the tenants, if you're asking them in existing lease situations to rely on the marketplace, that would be an unadjusted number. It doesn't take into account, for example, somebody who entered into a lease 20 years ago and has a very favourable rent compared to somebody who's just entered into a lease and may have a less favourable rent.

Mr Monte Kwinter (Wilson Heights): I was interested in your recommendation about eliminating the graduated tax for commercial property. Could you expand on that? It seems to me that there is a very great danger that people will immediately start figuring out ways to get around that, in the same way as you talked about the commercial concentration tax, where buildings would be designed to be just under the threshold, where there would be some very creative kinds of designations, things of that kind. Have you done a lot of work in that area?

Mr Bech-Hansen: We've merely discussed it at committee. When the commercial concentration tax was being debated, I'm sure we speculated about what the potential outcome could be, without being able to test it. You don't know until that happens. But there are certainly all kinds of tactics that could be used: condominiumization of existing commercial buildings to divide the ownership up into packages small enough to qualify for the lowest threshold rate of tax. That's just one of many things.

From a land use perspective that we have on this, which we've always had an interest in, in the broader context, we think tiered or graduated tax rates will create some pressure for urban sprawl and disincentives for land use intensification, because it's going to deter construction of high-rise office towers in city centres in favour of low-density development in the suburbs, and that's just inefficient from a land use standpoint and a transit access standpoint. That is just one of the considerations that has to be borne in mind. The commercial concentration tax also had that effect to a certain degree.

Mr Kwinter: Do you feel there's going to be a problem in administering this thing? My concern with the graduated tax is that there's going to be a certain amount of arbitrariness about it, where politically a municipality may decide that one particular industry has a greater benefit to the community than another, notwithstanding the actual value of the real property or their position in the community but because of the service they provide, and then you really do get distortions.

Mr Bech-Hansen: That's right. That's more of an issue in smaller towns without as much diversification in the commercial base as Toronto has, and that's sort of the flip side of our point 6 on compromising the anti-bonusing laws Ontario has. Graduated tax rates could also be used to, say, isolate a single large industrial employer in a smaller town and really hammer them to derive favour to other types of businesses in that same community.

Mr Kwinter: To pick up on the retail fair tax group, the concerns that have been expressed to me are that under this new proposal, the landlord would pay the tax, particularly in a strip and a shopping centre, and the retailer will not get his tax bill and will have to deal with the landlord and has no ability, other than through the landlord, to try to adjudicate or get some redress. Is that something your group has looked at?

Mr Bech-Hansen: That's the concern. We're just sympathetic to tenants being able to have reconsideration of assessment if they feel it isn't fair. We have landlords on our committee as well, and they take the case, "If the property is by any account over-assessed, legitimately we're going to appeal it; it's in our own best interests to do it for the benefit of the tenants." It comes back to a fundamental issue of preserving certain privileges that already exist. I guess most of our members would be tenants; they are not owners of the property. That's why we feel somewhat blind to this group's concerns.

Mr Kwinter: One of the things that was pointed out to me was that the tenants are the taxpayers; the landlords are the tax collectors, because they pass it all on anyway. They get assessed the tax, but they collect it from the tenants.

Mr Bech-Hansen: In a sense. That's always the way it's been.

Mr Gilles Pouliot (Lake Nipigon): Good morning, gentlemen; a renewed pleasure indeed. I expected no less of an observation commending the government. In fact, you used the word "courage," that it's the first government that has had the courage to address this issue. I couldn't agree with you more. It takes a lot of courage, because you're navigating in uncharted waters. We're about two months before a series of events is about to take place, and to this day we don't know most of the story which is about to unfold. You have a fiscal year which starts on January 1 for municipalities; you have a fiscal year which starts on April 1 for the provincial government; you have 3.8 million units being assessed across Ontario, the largest endeavour of this sort in North America. The ministry is fully expecting — this is the government saying this — at

least half a million appeals. In fact. They're hiring people. It will take up to 18 months to process those appeals.

You mentioned AMO. Under that umbrella organization, they represent 95% of the populace of Ontario. They appeared before the committee yesterday. They're asking the government to raise the interim levy to go above the 50%. The members you represent must be aware by this time that when the municipalities go to the interim levy very early in the new year, the business occupancy tax will be factored in. This will be included in the new levy. If they expect a decrease — AMO claims to have the pulse of the municipalities. If so, why would they ask the government to raise the 50% interim levy? Do they feel that in most instances there will be tax increases by way of amalgamation in your case, and also by way of reassessment in some other cases?

If I run a business in a good way, I would think that two months before embarking on this major endeavour — before I use the word "courage," I would want to know what the regulations will tell me. Maybe the devil is in the details. We don't have an impact study. We don't know where the chips will fall. Given what's at stake, I would demand that we be given the database on which they operate, the criteria, what it is they're using to arrive at those figures. There's a lot of anxiety, and it leads to fear and confusion.

0940

Mr Bech-Hansen: I guess our modus operandi in dealing with any provincial government is that we're dealing with each piece of legislation as it happens. In the totality — the Who Does What reforms, the amalgamation of Toronto, the changes in school finance and the assessment reforms — I think anybody is going to say that it's pretty overwhelming and it is very hard to know the final outcome of it all. We've been on record that we don't agree with the particular aspects of disentanglement that the government has pursued, with the increased sharing of social services at the local level, but that's just not an issue in the debate over this particular bill. We have to treat each piece on its own merits and demerits. In the broader scheme of things, sure we're concerned about the potential impact of all the changes, but that can't necessarily influence what we're going to say about this particular bill just dealing with the reassessment. We agree with you; everybody's concerned about what the potential outcome of all of this is going to be.

Mr Pouliot: With the creation of subclasses under the jurisdiction of municipalities, do you fear that the small business people will still pay the full levy for schools? Without imputing motive, would the council of the day decide to impact more on the residential or on the small business and industrial sector? There are more residential homeowners.

Mr Bech-Hansen: The more you subdivide property classes, the more opportunity you create to cross-subsidize between property classes. That's just a general drawback of introducing the idea of graduated tax rates or new subclasses for that purpose, and we're against that. In an ideal world, if you were starting from ground zero, we'd say there wouldn't be any property subclass. There'd just be something called property, and it gets an assessment and it gets taxed, plain and simple. The fewer classes, the better. We agree that the more you create these things, the more you give opportunities to municipal councils to screw around with who pays the freight for whom. We'd like to try to avoid that.

The Chair: Thank you very much for coming today and for your excellent presentation.

INDUSTRIAL SECTOR

The Chair: Will the industrial sector please come forward?

Ms Tayce Wakefield: We appreciate your time this morning. We'll do a brief presentation and then try to leave time for questions at the end. With me today are Peter McBride, of the Ontario Mining Association, and John Bakker, of the Canadian Steel Producers Association. We're sort of the business types. We have some tax experts along to help us out as well. I'll just introduce the members of the team, because if you have technical questions, we brought them along to help.

The Chair: Would you like to have them sit at the table as well?

Ms Wakefield: If you wouldn't mind. Come on up, guys.

Just about to sit down is Jack Walker. He's with the law firm of Walker, Fox. Next to him is Iain Fraser of AEC Valuations; they've been helpful to our group. Stephanie Serra is a Career Edge student working with us on this file. Just a brief commercial for Career Edge: If Stephanie is an example of the quality of people involved in that program, it's an excellent program.

We represent a broad group of industrial taxpayers. In addition to the people who were able to appear this morning, our team includes the assemblers at Ford and Chrysler as well as General Motors; the Automotive Parts Manufacturing Association; mining and steel are here; the oil producers; and I believe you've heard separately from the chemical producers and the brewing association, but they too have been working with us on these issues.

Let me begin. We support the Ontario government's efforts to reform the property tax and assessment system. We believe it demonstrates the government's commitment to establish a fair and equitable tax system, and we believe a fair and equitable tax system is fundamental to creating a climate where business is welcome in the province. However, we do have some concerns that we want to share with you today. For example, targeting industry by creating a separate class and continuing higher rates than for all other businesses is a contradiction to this commitment to fair and equitable tax systems.

Industrial players are both capital- and labour-intensive. Industry represents about 7% of the registered businesses in the province, but we employ about 20% of the workforce. On an interesting note, we generally consume less municipally provided services than either commercial or residential taxpayers because we tend very

often to provide our own sewage systems, roads, policing, fire, that kind of stuff, from within our own operations.

We are very concerned that continuing higher taxes for industrial properties sends a signal that the Ontario government discourages industrial operations and investment. I'd just note that new capital investment is probably the most transient in the industrial sector and it will seek locations with the lowest cost across all the measures, property tax being one of them. In addition to our interest in attracting new investment, we need to be concerned that we do not disadvantage existing investment by making it uncompetitive.

Ontario is among the highest in property and wealth taxation as a percentage of GDP in the industrialized world. In fact, we have virtually no wealth taxes in Ontario, inheritance, gift, some minor capital taxes. We are a very heavy property tax jurisdiction, and this chart gives you an idea of just how property-tax-heavy we are. We believe this current overtaxation of Ontario business hinders our ability to compete nationally and globally. I know that when we do a bid for investment, one of the line items assessed is property tax, and it is measured as against competing jurisdictions.

The next chart shows you the kind of thing we measure. It is a comparison of industrial property tax per square foot, looking at competing jurisdictions for investment. It shows you that at the low end in Ontario, we are still above competing jurisdictions. At the high end, we're off the scale compared to other jurisdictions.

The new assessment system will go part of the way. It will eliminate the inequity and distortions within classes by establishing a current market value system. But we are concerned that the huge tax inequity and distortions between business classes should also be addressed, and it should be done by establishing one rate for all businesses.

Systematic overtaxation of one class of properties relative to another — that is, industrial properties — is built into the current tax system, we believe for historic anomaly reasons rather than any deliberate public policy reason. Business pays on average three times the residential rate, in some cities as much as five times. Industrial is significantly overtaxed relative to commercial. We don't see a logical reason for the difference between the two classes. In addition to that, there is significant variation in tax rates across the province, depending on which jurisdiction you're in. The net result is that two equivalently valued properties can be taxed at very different rates.

As I've already mentioned, industrial business frequently receives fewer benefits from municipal services, yet we're paying by far the most. The bottom line for us is that a business is a business, and there is no reason for special treatment to be given to one type of business over another.

The next chart is a bit of an eye chart, but what it shows you is that on average, industrial players pay 347% of what residential players do in any given municipality, compared to only 235% on commercial. We would say that in an ideal world, a property should be a property, but certainly a business should be a business. There should not be a differentiation between commercial and industrial. You can check the municipality that interests you most and see what the differentiation is, but in virtually every case we think it's an unfair differentiation. In case anybody wants to know, Southwold is where the St Thomas Ford assembly plant is located, which is why it's on the list.

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As I said, the first principle for us is that a business is a business. There should be no different class, no different rate, for commercial and industrial.

Second, we are concerned that under Bills 106 and 149, the minister will be able to establish classes and subclasses by regulation. That in effect gives the ability to create classes and subclasses which will either bonus or target certain taxpayers in a municipality. There are two fundamental problems with that. The first is that there is no process in the act to ensure that the concerns of those who would be materially impacted are taken into consideration by virtue of the fact that it's ministerial discretion. We are concerned about due process considerations for something that might so materially affect the competitiveness of one player versus another. Second, we're also concerned about the result of either a target situation, such as Heinz experienced in Leamington, or a potential bonus for a greenfield investment that might come into the province.

Let me say that we're not taking a position on bonusing today, which is properly the subject of the Ontario Municipal Act, but we are saying that 106 and 149 should not provide backdoor bonusing where it isn't intended under another Ontario act.

The bottom line for us is that municipalities and the minister should not be permitted to target or bonus individual industries or taxpayers. Sections 7 and 8 of the Fair Municipal Finance Act should be amended to prevent targeting and bonusing. The principle for us here is that property tax should not differentiate competitors within the province. Differentiation between competitors should be more properly on the quality and value of goods and services provided rather than on the fundamental property tax cost.

In terms of the transition, we have some views there. Some taxpayers have been overpaying in this province for many years while other have been underpaying. As I said at the outset, we support the efforts by the Ontario government to rectify this wrong. However, we are concerned that the eight-year phase-in period is too long, particularly for those who have been overpaying for years, and it also builds in unnecessary complexity. I don't know too many businesses whose active business planning time frame extends to eight years; three to five years is more normally a business plan. When you get out beyond the five years, you have some visioning and some directional planning, but you need some certainty as well, and that would drive us to a shorter time frame.

In terms of phase-in concepts, we are concerned that historic overpayers should not be expected to finance a

political decision to relieve the impact of tax increases on others. We would ask that property tax decreases should be provided as quickly as possible, and if phase-ins are necessary, they should be restricted only to hardship cases. We would say a threshold of 10% in terms of increase, or some measure, not for everyone. The maximum phase-in period should be at worst, from our perspective, three to five years, ideally immediately.

To talk for a moment about the bands of fairness concept, again we don't see a reason for differentiating, having separate bands of fairness, allowable ranges, for commercial and industrial. We believe there should be a single band of fairness for commercial and industrial. We believe it should be as narrow and as low as possible. Those municipalities that fall outside the band of fairness when they are established should be required to move into the band within a reasonable time frame, and again a reasonable time frame to us is as soon as possible.

We believe all these elements should be clearly spelled out in the legislation. The Fair Municipal Finance Act should be amended to establish one narrow, low band of fairness for all municipalities.

To us, property taxes are property taxes, so we'd like to take this opportunity to talk for a moment about the Education Quality Improvement Act, Bill 160, because for us we look at a tax bill no matter which act is generating that bill.

The Education Quality Improvement Act establishes two property classes, business and residential. In that way, we do support at least the fact that in the legislation there isn't a differentiation between types of businesses. However, we are concerned that the regulations will allow the minister to establish separate classes of property, so we may migrate away from one business class to more; and in addition, different tax rates may be established for different municipalities, different geographic areas and different parts of municipalities.

We're concerned as well that the Minister of Finance is given regulatory discretion over how $3.5 billion in taxation is raised from the business community. We believe that is something that should be legislated, not left to ministerial discretion. We need certainty. We need to understand clearly what those principles will be.

We believe that all businesses share equally in an educated workforce and therefore should contribute equally, and that the education tax should be determined by a clear public policy direction set explicitly in legislation.

The bottom line on this issue is that there should be a single business education tax rate and class for all business across the province.

To wrap up and summarize, our recommendations are as follows:

There should be a single class and a single rate for all business properties.

There should be no discretion to create special classes to bonus or target individual taxpayers.

Decreases for overpayers should be provided as quickly as possible

There should be one narrow, low band of fairness established in legislation for all municipalities.

The business education tax should be established clearly in legislation and should be a single rate for all businesses across the province.

Thank you, and I now invite your questions.

The Chair: There are approximately 18 minutes left, which will leave six minutes per caucus. We'll begin with the NDP caucus this time.

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Mr Pouliot: A most impressive presentation. If Bill Gates ever attempts to appeal his residential assessment, with high respect, madam, I think he should bring you along. You probably would convince the panel that Mr Gates is not being properly assessed.

I'm intrigued by this same rate of taxation for, say, the much-maligned banks, for instance the Royal Bank, vis-à-vis the mom-and-pop bakery. Best wishes with your respective councils. Taxation, not only across Ontario but in modern democracies, has become extraordinarily complex, for there is the recognition — although it's changing — of the need to favour one sector as opposed to another. Subclasses: That's why you have experts in tax.

I just read in ROB a couple of weeks ago that Quebec has yet again offered an incentive. New businesses establishing themselves in Quebec are exempt from some provincial taxes, and they're leaning on municipalities. But it's not every sector. It depends. If you're high-tech, that's one thing. If you're mining, under the mining assessment act, whatever is underground, the real wealth, which is not renewable, is tax-exempt. It is perhaps, of the resource sector, the most advantaged, but they too will claim that they're overburdened. Once you get to forestry, there are at least 10 different tax systems controlling forestry, anything from a stumpage fee to growing a replacement, a fee for every unit you harvest, so it's terribly complex. I'm sure you're very much aware of it.

Your point is extremely well taken. We need to simplify where we can, yet we're going against the current.

Ms Wakefield: We agree that greater simplification is desirable. Clear, understandable rules which are written in legislation is a key principle for us. We compete internationally for investment in the industrial businesses that are part of our team, and while there are other things that are positives for investment in Ontario, this is very definitely a negative. It shows up, as a line item, as a negative, and it's something we think we should address. We're not saying we shouldn't pay our fair share; in fact, all the players involved in our team fully accept that we have a responsibility to pay our fair share. What we don't accept that we should pay a disproportionately high share.

Mr Pouliot: Lobbying is the most honourable of professions; it's not a vulgar trade. Ours is a vulgar trade. But low interest rates, proximity to markets — Mr Kwinter and family have done very well, through a lot of hard work and good fortune — stability of government, and reliable, consistent energy at a reasonable cost are all factors. I can look at the Missouris and the Alabamas of the world, the right-to-work states, and Quebec is not

attracting nearly the investment that Ontario is attracting. Mind you, I'm aware there are other factors.

Your point is well taken, but every second brief we get says they're unique, so scrap that word out of the dictionary; no more "unique." Then we have fairness. Everybody says, "I'm not opposed to paying some taxes, but it's fairness."

Here is the list of what is about to happen; that's devolution. That is the real story. This is not revenue-neutral. This is close to $1 billion coming out of municipalities in the shift, so expect not to pay the same or less; expect to pay more taxes. There's a billion dollars missing; the document is right here.

Mr Jack Walker: I think you're missing the point. The point is that there's nothing wrong with distinguishing between industry, commerce, business, as long as it's a political decision. The historic background of this is that the distinction between business and industry was a haphazard happening that occurred in 1970. There was no policy; it just happened. When they froze the roll in 1970 it happened because of the economics, and it's been carried forward and is being brought out now as if it were intended and it was a governmental decision to carry it forward. That's not the truth.

Mr Kwinter: Thank you very much for your presentation. I'm really taken by the presenters who come forward and say, "We really welcome the effort to change the assessment system, but..." and then they list all the reasons they don't agree with what the government is doing. I'm sympathetic to that, but I have concerns.

First, on these line items, industry doesn't want to pay any more taxes than they have to. How much of a determinant is that in the overall evaluation? I mean, if you want to get cheap taxes, you'd go up to the Northwest Territories, but obviously that doesn't make any sense. You've got to be somewhere that gives you access to your markets, that gives you access to a workforce, access to infrastructure, all of these things. How critical is that tax number?

Ms Wakefield: As you know, it's the combination of factors. No one factor will completely drive a decision. But property taxes are a line item; it is something that gets focused on. There are the direct comparisons made between the jurisdictions that are being considered for any given investment, so in that sense it's relatively more important than other factors, but again it is a package.

The point here is that competitiveness would suggest that we're at a disadvantage here in Ontario. Even within the province, we have found ourselves, as Jack said, because of a historical accident because of the freeze in 1970, with a situation where the policy of the province is to disadvantage industrial investment, to consistently and systematically tax industrial investment at three to five times what residential pays or double what commercial does. Yet this is a sector that is very labour-intensive. We would think that the policy of the province should be at least to put industrial investment, which is labour-intensive, on an equal footing with commercial investment to ensure equity within the classes within the province, not to favour one particular type of business over another.

Mr Kwinter: I agree with you completely. The political reality, though, is that the one you want to tax the least is the homeowner, because they're the voters, and then you want to put the tax on industrial because they require very little in the way of service and it's perceived that they have the ability to pay, so they whack it to them. I agree that there is an inequity, but you have to deal with the political reality.

Ms Wakefield: I understand, but somewhere in there is the balance, which is that that homeowner has to have a job to be able to pay his taxes, and that's where that you've got to find that relative equity as between business and residential.

Mr Kwinter: I'd also like to talk to you a bit about the bonusing. My concern is that notwithstanding that in the province municipalities cannot give tax incentives to attract industry, with this particular act they're going to be able to do it a different way. You're going to have jurisdiction-jumping, you're going to have people competing with each other, depending on how they interpret the classifications they're assigning to a particular person. If someone comes in with a greenfield operation, they'll say: "We can work that out. We'll finagle the thing around. We want you to come to our community." Do you see that as a reality?

Ms Wakefield: You should come join us on this side of the table. That's exactly our concern. Most of the players here are mature industries. Some of are expanding or have hopes of expanding, but we have some concern that bonusing is more likely to be achieved by a greenfield investor in the province, and then you start to get into advantaging one player versus another within a sector. We go back to the fundamental principle that property taxation should not be the competitive base of one player or another. Second, backdoor bonusing shouldn't be allowed by this act, where it's not allowed by the Municipal Act.

Mr Kwinter: The last thing I want to talk to you about is the education tax. Again we're talking about politics. The government has made a decision: "We want to take education funding off the taxpayer, but that's the residential taxpayer, that taxpayer who has a vote. We're not going to take it off industry, because they don't have the same vote, and we've got to be able to get the revenue." So we have a problem, because there are inequities. There are arbitrary decisions made to disadvantage one sector over the other.

Ms Wakefield: I think most businesses in this province would say that one of the competitive advantages we have is an educated workforce and that business does share in the responsibility for educating that workforce, for paying some tax for education. But the two principles that guide us in this is that first of all it should be clear and understood and in legislation. It's $3.5 billion a year, big money, so it shouldn't be at the minister's discretion; it should be clearly written in legislation. Second, fair and equitable: There should be a single rate for all businesses. It's difficult to argue that one business benefits more from

an educated workforce than another, so we would suggest, have a single rate for all businesses across the province.

Mr Grimmett: I want to congratulate you for a very provocative and effective presentation. You certainly have raised a lot of issues that all parties want to discuss. It's a shame that we don't have a little more time to discuss some of the issues you've raised. But I've got six minutes, so the first thing I want is to get your response to us dealing with the business occupancy tax. There's probably some relief in that for your group, is there not?

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Ms Wakefield: We do support the end of the business occupancy tax, because it was the worst excess, if you will, of different rates for different types of business. That is definitely a positive. Let me say again that we support the government in heading down this track. We think you're moving in the right direction. We just want to make sure that we get it as right as we possibly can, since property tax reform comes around once every 30 or 40 years in this province.

Mr Grimmett: Do see the lifting of the business occupancy tax as a substantive benefit to industry?

Ms Wakefield: We see it as a movement towards a more fair and equitable approach to property taxation that would be consistent with what we're suggesting here, which is the single class and single rate for all businesses.

Mr Grimmett: You have a slide here that shows the property taxes in Ontario as related to other major industrial countries. Why do you think that the services that are paid from the property tax are so costly in Ontario? I just want your views on that — or do you not have an opinion on that?

Ms Wakefield: I'm not an expert in municipal services and the cost structures behind them and relative comparisons to other jurisdictions.

Mr Grimmett: Presumably though this chart does not disclose the fact that the property taxes in Ontario may fund services that are not funded by property taxes in the other comparative jurisdictions. That's a fair analysis?

Mr Walker: That's true.

Mr Grimmett: So the chart may not disclose everything you need to see whether our services are more costly or less costly than other jurisdictions?

Mr Iain Fraser: I know there are differences in education funding, for instance, between these jurisdictions. We don't have the means to actually go after that, but certainly.

Mr Grimmett: One of the major issues you have raised is bonusing. It is a very significant issue, and we have had some discussions with some municipal people about it already, but I did want you to address some of the ways that the legislation has tried to deal with that issue. We will be setting tax ratios to prevent shifts between classes. Municipalities can only move towards fairness within the bands of fairness that are being established and subclasses would be restricted by the bands of fairness for the property class, and there are also provisions in the act for the minister to impose by regulation restrictions if there appears to be bonusing.

Ms Wakefield: As I said, bands of fairness conceptually are the right direction. We would improve them by not just making them optional for municipalities to move in the right direction with moral suasion or direction from the government, but rather, make it obligatory and go the final step. In that sense, bands of fairness are a good concept. The way to improve the concept, in our view, is to make it narrow, a single band of fairness for all businesses, force outlyers into the band of fairness and do it as quickly as possible.

The Chair: Thank you very much for coming today. We appreciate your presentation very much.

ORLANDO CORP

The Chair: Would Phil King from Orlando Corp please come forward. You have 30 minutes to use as you wish. If there's time remaining after your presentation, I'll divide it equally among the three parties for questions. Could you please identify yourself for the record and then go ahead.

Mr Phil King: My name is Phil King. I'm the senior vice-president of Orlando Corp and also VP at large for the Mississauga Board of Trade. The Mississauga Board of Trade is as concerned as the development industry with this act with respect to the issue that I'm going to bring forward today.

The Chair: Are you here representing Orlando Corp or the board of trade or both?

Mr King: I'm here representing Orlando Corp and expressing the concerns of the board of trade, as directed by the executive, on this particular issue.

Orlando Corp is this province's largest industrial developer and builder. We cover the whole development spectrum from buying and developing land to building and owning industrial and commercial properties. As developers, we do not create the market; we react and provide the product that the market requires. In our instance, that market is industrial growth. We provide what expanding businesses require from a facility standpoint. We need to have a long-term supply of well-located land to provide industry with choice of location at affordable rates.

Orlando's approach has been to purchase land for long-term growth that will ensure we have well-located lands available. That's known as land banking. In 1987 we assembled 1,250 acres of farm land in Mississauga. This project, known as Heartland, was a 30-year project which will eventually be home to over 300 businesses and provide over 30,000 jobs. To date we have serviced and registered 700 acres of land through five different plans of subdivision. There are still over 200 acres of vacant land within those registered and serviced plans of subdivision, and over half of those lands are zoned office commercial, and as such, have a considerable buildout time, in some cases over 20 years. As an example, we recently built upon a vacant parcel of land on Airport Road, 30 years after the plan was registered. As you can appreciate, the cost of carrying these lands is a major factor in our con-

sideration. We cannot afford to have too much vacant land in our inventory because of the time frames involved.

In the past, the practice for taxing development lands has been to assess taxes based on use. This bill is a major departure from that well-founded practice. I'm just going to put up a chart. This chart signifies how the current practices work for taxing farm lands pending development, and it deals with various approval processes through the planning process. Up until registration of a plan of subdivision today, the lands are farmed, nothing on the land changes as far as use is concerned, and lands are being taxed at the farm rate. You can see that indicated by the very small percentage of the total tax rate up until about year 8. The time frames we're talking about here are totally market-driven. In areas in the GTA, you can draft approve and have plans registered within a couple of years; outside of the GTA, it can be many, many years. So you can appreciate, I'm sure, that the cost of carrying those lands after draft approval is a significant issue.

After you get registration, you then service the lands, and that will allow you to obtain building permits. The final use is not determined until the building permit is actually given, so you're not going to get the building up there that will use the lands for their final use until that time, so current practice is even after registration, some lands are still being farmed in large blocks and still benefit from a reduced tax rate to encourage the development industry to bring these lands on stream and have a good supply of lands.

Bill 149 proposes to change that by starting a new trigger at draft plan approval, and at draft plan approval, this act recommends that the farm tax rate no longer be applied, regardless of whether the lands are being farmed, and it is then a percentage of the market value. The act at this stage recommends that up to 50% of market value is applied to draft plan approval and then at registration going to 75%. You can see the significant differences in this chart from the other one and the significant increases in costs that will be applied at draft approval. The one concern we have is, as I say, the market drives the time frame. What will happen is if we are not able to have a reasonable level of taxation, we will not bring lands on to be draft approved.

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This government and its predecessors have had one common approach with respect to development: They have all recognized that development is the engine that drives Ontario's economy, and they have relied on the private sector to make that investment. The policy that this government is putting forward under Bill 149 will undo all the positive policies put in place to encourage investment in the development industry in this province. The changes to the Planning Act, Development Charges Act and others will all be for naught, because the negative implications of this bill will prevent lands from coming on stream and in fact are a disincentive to bringing lands on stream.

This government has made changes to the Planning Act, as mentioned, to remove red tape and speed up the approval process. This bill puts forward a taxation policy that penalizes land owners for processing development applications. Again, you can see that if we get draft approval, there's going to be an increase in taxation.

At Orlando we have already been forced to change our development practice because of the severe implications of this bill. We were proceeding with a development process for 400 acres of industrial land in Heartland. We were just months away from draft approval, after 10 years of processing such plans. That 400 acres would be a 20-year supply when considered in conjunction with the 200 acres of serviced lands left in our serviced land portfolio. We have now stopped that process on 300 acres of that land because of this act. We are only proceeding with 100 acres, which is all we need in the short term. Why should that concern this government and the opposition parties? This province needs a long-term supply of lands ready for development to attract business and provide a long-term housing supply. If costs of carrying increase, then these lands will not be draft approved.

In our example of 300 acres, the land is currently being farmed, and notwithstanding any potential draft approval or zoning, those lands will continue to be farmed right up to registration. Even after servicing and registration, some large blocks that are still years away from development, ie, building on them, may still be farmed to assist in reducing the cost of carrying.

Any changes to any taxation system should not discriminate against industrial-commercial. Just as an example of that, I have handed out a chart which identifies how different classes of property have different tax rates, and these are land property tax rates. You've got a whole list of municipalities from which this information has been taken, and I think all we need to do is look at the median at the bottom. Farmland is at $27 an acre; the residential rate, even at 100%, is $198; commercial is over $3,000; and industrial is almost $2,000. If you apply industrial-commercial rates to vacant land, you are penalizing business being able to locate in this province and increasing the costs to business that will locate here. Our suggestion is, whatever you do, make vacant lands have the same tax rate, being the residential, to encourage these lands to be brought on stream.

We must remember just what draft approval of a plan of subdivision signifies. It is a step in the development process that provides conditions that a land owner must satisfy prior to being able to achieve registration of the subdivision. Nothing on the ground changes due to draft approval. Registration is the trigger when changes on the ground occur and the lands can be sold for their intended use, although the final use, as mentioned before, is that the land is not realized until the building permit.

We are at a loss for a reason as to why an increase in taxation is being proposed on vacant land and question the rationale. However, if changes are to be made, we have encouraged this government to use a different trigger to implement any changes in taxation: That trigger is registration of the plan of subdivision. Registration signifies that the land owner has complied with all conditions on the development imposed by the province and municipal-

ity. Registration permits the land owner to sell the land for its planned use. It is the point where the planning approval process is complete. It is the point where the land owner commits to spend significant dollars to service the lands, pay development charges and be able to market the lands for sale. Registration is the point where building permits are available, so registration is the correct and fair trigger point for any changes in taxation. As mentioned, even after registration, we're urging that this government apply a single tax rate to continue to encourage these lands to be brought on stream.

Some will argue that the value of lands increases at draft approval and should be based on value and therefore pay its fair share. Some will also argue that paying farm tax rates by developers is an abuse of the system.

Let's study the facts again: Draft approval is the vehicle to implement a municipality's official plan. It provides the land owner with a list of conditions that are required to be met before the lands can be used for their ultimate use. The use of the lands the day before and the day after draft approval does not change. The land owner cannot sell his land for its intended use, because the approval process has not been completed.

If this government wants to stop lands from being draft approved, then Bill 149 is the right policy; if this government wants to encourage draft approval and encourage investment, then it's the wrong policy. We're in the front line of development and industrial growth and need government as a partner, a partner to help orderly development based on sound principles, a partner to ensure the system is fair and not overly bureaucratic. We take the risks of investing considerable funds in the development process. We need government to make it easier for us to invest, not place restrictions on such investment. We will all be losers if this bill is passed as it is. We therefore encourage this government to revise the act and to encourage lands to be brought on stream. We suggest the following changes:

Continue to recognize that at draft approval, nothing on the land changes to warrant any increase in taxation. Those lands are still being farmed.

Implement a structured taxation vehicle at registration, and such structure would value the lands based on their current value, apply reducing factors to such value to achieve a fair tax rate, recognizing the lands are still vacant, and I've mentioned before that that tax rate should be the same for residential, commercial or industrial — they're still vacant lands.

Permit the municipalities the option of lowering that factor, and this will benefit municipalities outside the GTA where there are considerable registered lots available with no prospect of development in the short term. As an example, the statistic that I had heard in Niagara is that there are over 100 years of registered industrial lands available at this time. Imagine if there were an increase in taxation. The land owners would definitely lose those lands for non-payment of taxes.

Finally, impose a full taxation at building permit. That's when the lands are being used for their intended use.

In summary, there is no justification for any tax increase prior to registration of a plan of subdivision and no justification for full taxation prior to building permit.

That's the end of my presentation on that issue. I'll be pleased to answer any questions.

The Chair: Thank you very much. We have approximately 16 minutes left for questions, which I'll divide equally among the parties.

Mr Gerry Phillips (Scarborough-Agincourt): Can you take a real-live case for us of some building of some sort and give us some indication of what Orlando might expect if the bill goes through as it is, in terms of what you would have to sell the building at or whatever?

Mr King: Let me just explain that if we had proceeded with the 300 acres that we decided we were going to stop on, the day after we got draft approval, our tax rates on those lands would have jumped considerably. We are currently paying around $39 an acre, and we're farming lands. They're bona fide farms. The farmers have been farming them for 20 years. The ownership has changed, but the lands are still being farmed.

If we had proceeded with draft approval last year, before we knew this was coming along, we would now be hit with a tax increase that could be up to $1,800 an acre on those lands, from $39, and those 300 acres could be sitting there for 20 years before we get registration. You can imagine the cost, $1,800 a year on 300 acres for 20 years, when the market value of industrial land today is between $220 and $275 an acre and it costs $175,000 an acre to pay development charges, to put the roads in. That only leaves $50,000 to $75,000 an acre for the actual land value, and that's going to be totally used up in taxation. So, as I say, it prevents you from bringing the lands on stream. We've heard some developers talking about de-draft-approving their lands because of the onerous provisions of this act. That doesn't make sense to anybody, why you would want de-draft-approve something purely because of a taxation policy. It's not encouraging development.

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All of these things, even if companies like ourselves or the larger ones will still be able to afford to pay these things, all it's going to do is increase the cost to business. The rental rates will go up. Currently taxes on industrial buildings in Mississauga are about $1.10 a square foot of a total occupancy cost of around $5 or $6 a square foot. So it's a significant number, and that number can only go up because of this policy.

Mr Phillips: Another committee presentation, I think from the petroleum industry, was indicating that there are significant barriers to capital investment. In many industries, if we're going to have the jobs, we've got to build the factories, obviously. We're competing, as we all know, at least North America-wide now for capital investment. So I take your point, which is that the land cost is currently significant and this would become a dramati-

cally more significant cost factor in the construction of new industrial and commercial sites. On the surface, it sounds quite dramatic. At $1,800 an acre for even 10 years at current values, you're talking $250,000 probably.

Mr King: It's significant. When you start getting into numbers, people start to get —

Mr Phillips: It's not $250,000, but $30,00 or $40,000.

The reason we were given for doing this is "to encourage development-ready land at reasonable cost while ensuring such lands make appropriate municipal contributions while held for development." So the government's position on why they're doing this is to have it at reasonable cost but making sure it contributes its fair share, if you will, to municipalities. Have you any advice for us on that?

Mr King: Yes. What is the fair share for a piece of farm land? Why does a piece of paper saying you've got draft approval signify that you should be paying more the day after you've got it than the day before you've got it? There are absolutely no services provided by the municipality for those lands up until registration. Even after registration, there's a period of time before they start providing services to those lands. That's basically till you get building permits. So what we see this for is a way to get additional revenue from — I heard some discussions on the last presentation — those who are not able to vote, they're owners of land, they're farm owners. We're not talking about development companies like ourselves. A farmer who has owned his land for 20 years and decides he wants to get draft approval: Those are the people who are going to be paying the increase in taxation, and those are the people who are going to be risking losing their lands.

Mr Grimmett: Mr King, as with some other presenters, you've certainly raised some very important issues in the development process. You've identified some issues as far as the cost you're encountering. But I do want to say that I think we're missing one of the issues here. I go back to when I meet with people in my constituency office and they come and see me and they say — and I get this all the time — "Mr Grimmett, I just added a room to my house, I just made my house nicer and better, and the assessor came around, and they're going to charge me more now in taxes, when I have improved my property. My neighbour across the road, his building is falling apart, it looks awful, and he pays less taxes than I do. He's not making a good contribution to the community." I have some sympathy for his point of view, but I have to tell him that we have a value-based assessment system. We have chosen that system because it is seen to be the most fair way to divide up the cost of the services we provide.

It seems to me there is a point that's being missed here: that when you get to draft plan approval, when you get to registration, when you get to building permit, you are adding value to the land. From my limited experience as a lawyer acting for developers or acting in this process, I know that when you reach those benchmarks you have crossed a certain hurdle and you have added value to those lands. I think it's important that this be recognized, because it's no longer just a piece of farm land; it's now a piece of farm land that has more market value.

Mr King: I don't dispute anything you've said. I agree with you that at the various points throughout the process there are increases in value. The point is, is then just taking the value and applying taxation to it based on that value the right thing for this province to do? Is it the prudent thing for this province to do? We're saying no, it isn't, because you're going to prevent those lands from coming on stream. We will not be able to afford to bring them on stream 10 years earlier; we'll wait until the year before. Who does that benefit? The revenue is not going to be there, because we're going to change what we have to do because of this policy.

I don't argue with the principles you've got there, but I thought this government was trying to encourage investment. This is not the way to do it. If you're going to encourage it, don't put roadblocks in front of allowing us to put that money in. The real value is not generated till registration. That's when we put in considerable dollars. As I mentioned earlier, it's $175,000 an acre to develop an industrial subdivision in Mississauga today with market values of $225,000 to $250,000, depending on where it is. That's significant.

Mr Grimmett: How do you deal with the taxpayers who say: "Look at Mr King's property in this municipality. It's farm land, and he's paying $22" — what is this thing, is this per acre?

Mr King: Per acre, yes.

Mr Grimmett: — "and I'm an industrial operator who is having a bad year, and I'm paying $6,000"? That's a difficult issue for a municipal councillor to deal with. It's a difficult issue for me as an MPP to deal with. It's a political issue. How do we deal with it?

Mr King: I recognize it's a political issue. We're suggesting that you try to encourage investment, don't throw roadblocks in front of investment. When you've got a building on the lands, then it's based on value. We have no problem with that. We've been working that way in Peel region for years; we've had current market value for many years. So that's not the issue. When the land is being used for its intended use and there's a building up there, then tax us the same as everybody else. But before we get to that point and before we spend hundreds of thousands of dollars an acre to bring it to that point, don't then penalize us for getting it there.

If you're going to hit us, hit us when we can afford to pay it, when we are going to get some money back. We cannot sell the lands for industrial use until after registration. There may be a value on paper — and we've had this discussion with assessors — but there are very few land sales at draft approval; the sales are when you register and you can say, "Okay, I want to buy an industrial lot now," not further down. You've got farmer-to-farmer sales as farm land, and then you've got them as registered blocks on a plan of subdivision. The stuff in the middle is very little. I'm not arguing there's not an increase in values. There's an increase in values all the way through the process. But I'm just saying that we don't think this is

the right way to tax it, because you're then preventing us from bringing it on stream, and that will be detrimental to everybody, including the municipalities.

I understand there has been a lot of support from municipalities in this regard. I think Stephen Kaiser of UDI spoke yesterday and read a whole bunch of letters from various municipalities saying, "We don't want to see this either, because it prevents us from bringing these lands on stream and prevents orderly development."

Mr Grimmett: Mississauga thinks it's a good idea.

Mr King: Well, Mississauga is Mississauga. What can I say? That's one municipality in a very large province.

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Mr Pouliot: Good morning, Mr King. I completely agree with your approach. I'm most sympathetic. I share in your sorrow, if you will. It's appalling and shocking, because I know this government to be a good friend of developers. I know this government to be a very good friend of land owners, preferably large land owners. I find it, to say the least, Chair, inconsistent that your party is deliberately and systematically, by way of Bill 149, hurting its friends.

I come from a milieu where friends are people you treat a little better, not a little worse, unless — and you've mentioned Mississauga — you have a parliamentary committee in unity. Maybe the government made a deal with the mayor of Mississauga. I don't know, maybe it's appeasement, because some people make a lot of noise, and they get a lot of money from assessment on vacant land. They make a living at it. They're assessment rich.

What you're saying, simply put, is, "Give us a chance." You have no objection, once you get your building permit, to being responsible for a levy of taxation in accordance — whether you're residential, whether it's commercial or industrial, but at that stage. Until that stage, the land is not productive in the context of development, so why should you be penalized because you've tipped your hand, you've shown your intent? They're taxing the hypothetical, that's what you're saying.

Mr King: That's right.

Mr Pouliot: They're taxing a non-entity. So what do you do? When in doubt, you say no and you don't create jobs and you don't develop. You know of real cases that would develop, but the deterrent is that they will have to fork over forever some tax dollars, and they're deterred from developing because of what the government does. Is that what you're saying, Mr King?

Mr King: I agree with some of what you said. I don't think this is an issue dealing with how you treat your friends; I think this is an issue of how this government is trying to encourage investment in this province. We're pointing out that this bill is detrimental to that position this government has publicly stated. Whatever reasons they've been there, they may have been founded on good reasons with respect to the value you are talking about and keeping that same principle throughout, but the end result is that (1) you won't get the revenue, because as land owners we will have to change the way we do business; and (2) is it the right thing to do when you're trying to encourage investment? What do you want? Do you want investment and jobs, or do you want to get extra municipal taxes out of the land owners, which will cause smaller land owners to lose their land? It's happening now, and it will continue to happen if this policy is put in place.

Mr Pouliot: We both want Ontario to be open for business, Mr King, and we certainly hope the government will listen.

Mr King: So do we.

The Chair: Thank you very much for coming today and for an excellent and interesting presentation.

CANADIAN OPERA COMPANY

The Chair: Would the representatives from the Canadian Opera Company please come forward. You have half an hour to use as you wish. If there's time left over after the initial presentation, I'll divide it equally among the three parties for questions. Would you please identify yourselves for the record and then please go ahead.

Ms Georgia Prassus: Good morning, ladies and gentlemen. My name is Georgia Prassus, and I am the president of the board of directors of the Canadian Opera Company. With me are Michael Gough, the board secretary; Ms Elaine Calder, the general manager of the company; and Michael Bowman, one of our legal advisers. I thank you very much for seeing us today.

Many of you will be familiar with the Canadian Opera Company and our exciting and critically acclaimed productions. We have just finished our two fall productions, Turandot, and Oedipus Rex and the Symphony of Psalms. These went exceedingly well. Turandot, I'm pleased to say, sold out just a few days after we opened, and Oedipus Rex and Symphony of Psalms has been invited to perform at the Edinburgh Festival next summer, so this all bodes well for the company.

The COC is a not-for-profit charitable organization with a mandate to advance the art of opera in Canada. We do this in the following ways:

Currently we have a six-opera mainstage season.

We have a very important training program for young artists called the COC Ensemble Studio, and through this program we have produced and trained some of the world international opera stars today. The most notable one, perhaps, is Ben Heppner.

We also have a broad menu of outreach and education programs aimed at youth and adults. This spring our company will be presenting Hansel and Gretel and The Magic Flute to over 20,000 Canadian students.

Finally, but very important, is the fact that we commission and develop new Canadian operas.

I've been on the opera company board for 11 years, and long before I joined the board, it has been a dream of the opera company to have its own opera house. The primary reason for this has been that we need a house with superb acoustics, which we do not have the pleasure of enjoying today.

But in addition to that, we need to have a facility of our own because we need to have growth potential. I think you

will all appreciate that any organization that has no opportunity for growth potential cannot be healthy for too long. Where we are performing today, at the Hummingbird Centre, we are constrained by the fact that the ballet also performs there, and also Metro Presents has all their activities and shows there, so there isn't really time for us to expand our season. By having a new house, we can achieve more than one reality of superb acoustics; we can also expand our season in time.

It was tremendously exciting for me to be with the Premier this last July and make the announcement of our new site at University and Queen, the fact that we had an agreement of purchase and sale with the Ontario Realty Corp to acquire 145 Queen Street West. We intend to build an opera house with approximately 2,100 seats, and this will be a permanent performance home for the Canadian Opera Company. This is a spectacular location that's just been heralded by everyone. People are thrilled beyond belief. The site will provide one of the most exciting venues for the performing arts in Canada.

Many of you will have heard of the economic impact of the new opera house. It will have a total impact of $85 million on the Ontario economy, creating 951 full-time person-years of employment. The substantial contribution to creating jobs and economic prosperity for Ontario will only occur if this opera house is built.

We're here today to talk to you about the Canadian Opera House Corp, which we have established as a non-share capital not-for-profit corporation. This will own and operate the new house. We are in the process of applying for charitable registration for this corporation. The not-for-profit nature of the COC and our new house corporation is the reason we are here today. We would like to address the provisions in Bill 149 relating to property taxes on theatres.

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We would like it to be known that we support the move to exempt all theatres with less than 1,000 seats from property taxes on the basis that they provide the training ground for artists who are subsequently hired by large-scale commercial theatre producers. We commend this initiative, but we want to draw your attention to the fact that in opera the situation is reversed. In opera, it is the large companies, like the Canadian Opera Company, that provide training for young and developing artists. As I mentioned earlier, our Ensemble Studio postgraduate training program is recognized as one of Canada's finest training grounds for opera singers and coaches.

I'd like to tell you a bit more about the operations of the COC and the house corporation to serve as background for our request for property tax exemption.

Our objective in building an opera house is to create a performance hall for a not-for-profit charitable organization, namely the Canadian Opera Company. Initially, it is our intention to perform in the house for 24 weeks a year, but as I said earlier, we certainly hope to expand on that. It will be necessary to rent to a variety of other not-for-profit performing arts organizations, and some of these will be the ballet, the symphony, hopefully; we haven't finalized who the not-for-profit organizations will be at this point in time, but it is our intention to include them. This is the feature which distinguishes the new opera house from facilities which are constructed or operated with the intention of generating profits for their owners or shareholders, the fact that we're building a house and it's not intended to be a commercial for-profit entity.

The new opera house must be self-financing and cannot become a financial drain on the COC or other performing arts organizations that use it. In other words, if we were to charge astronomical rents to the other not-for-profit companies, we wouldn't be achieving the purpose we wish to. In order to be financially viable, the house has to be rented to other tenants when it is not occupied by the COC, and as I mentioned, we'll be offering tenancy to other not-for-profit organizations, the symphony, the ballet, chamber and choral music. But the house will also be rented to for-profit tenants such as commercial producers of concerts and theatrical productions. But I'd like to point out that in that case, we would not be sharing in the profits of those commercial producers; we'd merely be collecting rents from them as tenants.

The opera house is a different entity from other facilities of its size. First, it is not being built and operated for the presentation of commercial theatre. Second, as the performance home of a producing company, it has a distinctly different mandate from theatres such as the Hummingbird Centre and Elgin Theatre, which do not create productions; they're host venues. Third, the ownership structure is different. We will be a non-share capital not-for-profit corporation, unlike the others.

Bill 149 does not address the need for tax-exempt status for an opera house. The proposed amendment to Section 11 of Bill 149 was intended to deal with large commercial theatres. The amendment proposes a formula for property taxes to be paid by these large commercial theatres and allows them to have their property taxes reduced through a bylaw that the city of Toronto may introduce and pass.

But we want to point out that the definition of "large commercial theatre" does not extend to cover a not-for-profit theatre like the opera house. Therefore, property tax treatment of the opera house is still not covered under this bill.

Property tax exemption for the opera house is critical to the sound management and financial health of the COC and the opera house. We are therefore requesting that the Fair Municipal Finance Act (No. 2), Bill 149, be amended by adding paragraph 27 to Section 3 of the Assessment Act to provide the following exemption from taxation:

"Theatres owned and operated by a non-share capital not-for-profit corporation intended primarily for the staging of not-for-profit productions of a type prescribed in the regulations."

I'd like to thank you for your consideration of our request, and I'd like to stress how important it is for the COC to have property tax exemption included in Bill 149. We can then proceed with greater confidence to finalize our budgets and our business plans for both the company

and the opera house. Even for those people who are not opera lovers, this opera house will be great for the city of Toronto and great for the province of Ontario.

Thank you for your attention, and my colleagues and I would be happy to answer any questions you might have.

The Chair: Thank you very much. We have approximately 20 minutes left, and we'll begin with the PC caucus.

Mr Grimmett: Thank you very much, and welcome. I'm going to ask you a question that I think I'd receive from people in my riding if such an exemption were granted. Toronto is known as a hockey town, a place where you could probably say the most popular form of entertainment is hockey. I think Maple Leaf Gardens pays property tax. What do you say to those people who are industrial, commercial and residential taxpayers who ask, "Why should my taxes subsidize the operation of a tax-exempt opera house?"

Ms Prassas: I think initially you have to explain that not-for-profit performing arts organizations are that out of necessity. The cost of producing opera, for example, which is what we're talking about today, far exceeds anything that we could be compensated for through ticket sales. Elaine will give more accurate figures, but I would guess that if we were to pay for the company, we would have to charge three times or more what we charge per ticket now to cover the cost of productions. We need to be privatized through private and public support, so there's just no way we could be a traditional for-profit organization. Is there anything you'd like to add, Elaine?

Ms Elaine Calder: Only that the nature of our business is that we operate as a not-for-profit. That doesn't mean that we try to lose money, but we very seldom make money, and any money we do make goes not back to shareholders, but back into the company to further develop and strengthen what we can offer the citizens of this province. We are by nature a different kind of corporation than the one you referred to.

Mr Grimmett: I guess what I'm getting at is, what is the benefit to all those citizens and industrial and commercial taxpayers of subsidizing the operation of such a facility?

Ms Calder: The same benefit that accrues when you have a strong and vital performing arts and visual arts community within your city. We are terrific engines of cultural tourism. There are enormous numbers of people who come to Ontario to see what our cultural sector does and who spend money here. Indirectly, we put far more money back into the economy than we receive through the kind of subsidy we're talking about this morning. We are good for restaurants, we are good for hotels, we are good for parking lot operators, we are good for tour bus operators, we're good for souvenir shops. We're good for all kinds of businesses that benefit indirectly by the very small subsidy we're talking about here.

Mr Grimmett: We've received information from theatre groups, small and large — in some ways it's statistical, in other ways journalistic — that there is a definite market throughout North America for the theatre in Toronto. Do you have similar information with regard to opera?

Ms Calder: One of the reasons we want to build the opera house is that we need to be able to put on more than one or two operas at the same time. What induces operagoers to travel to New York and Chicago and San Francisco to see opera is that they can go for a weekend and see two or three operas. We need a facility where we can do a really quick changeover and do a different opera on Saturday afternoon than we do on Saturday night. We are already getting tourists from outside Toronto for the Canadian Opera Company. That figure will increase greatly if we can increase our repertoire on a given weekend.

Opera audiences are fanatics; they travel constantly. A large percentage of our audience will be in Chicago in a couple of weeks' time to see Ben Heppner, to whom Georgia referred, singing at the Chicago Lyric Opera. It's a very dynamic part of the cultural tourism industry.

Mr Grimmett: So currently your market is principally domestic?

Ms Calder: Yes.

Mr Grimmett: And you see this as an opportunity to expand it?

Ms Calder: Very much so.

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Mr Pouliot: How refreshing indeed. A mere 24 hours ago we had people reminding us that Toronto is now the third theatre capital and that film-wise we're becoming an important player as well. Then they went on to tell us about our ability to enjoy the diversity, the changes in demographics we've all noticed. Simply put, there's only one thing missing: yourselves. You believe in striking early. You don't even have a shovel in the ground and you're concerned about the intricacies of Bill 149.

I have one reservation, but it is not too consequential or burdensome, so before I address it, please, you need not fear the comparisons, whether they apply etc. A few years back — we were with the opposition — I was asked to do SkyDome. If half of it were true — and all of it is — you should be so lucky. You would have died and gone to heaven. It was better than the proponents anticipated when they arrived, and it was for nothing in return. It was more consequential, to the tune of half a billion dollars, taxpayers' money, guaranteed in perpetuity. This is not always a nice story, but I'm being candid.

I'm going to depart from form and commend the government. With the appointment of a friend, a colleague, but in this context a friend of yours, Isabel Bassett as Minister of Culture, they've departed from form, because they don't usually appoint the right ministers to the right ministry, but in this case it's flawless. She was instrumental — there were other people, but she was the lead — in terms of recognizing, through 149 and other bills, the necessity of those less fortunate. You're non-profit; why shouldn't you be given the same treatment? The Leafs have been losing for years and they make money. The COC has been winning for years, and all of us through them, and they're asking for a chance to be like the others.

There's just one small problem I have. You intend to have the building 24 weeks of the year, then you lease to some non-profits, but at times you rent to people who will make a profit. Someone is across the street and says that since you don't pay any taxes — you know what I'm getting at — "My capacity to compete is damaged." You can rent cheaper if you don't pay any taxes than someone who factors in the municipality taxes. But I wouldn't worry too much about it. They can express that with a subclause or by regulation. They're very good at that.

Mr Michael Gough: You'll be pleased to know, sir, that it is a term of our agreement of purchase and sale with the Ontario Realty Corp that in that instance our prices are to be comparable and no lower than commercial theatres so that we are not given a competitive advantage. Your point was anticipated, sir, and well taken.

Mr Phillips: First, I congratulate you on your site. I see the building's being torn down now. It's a fabulous site. And I agree with you; I've got lots of friends who travel around North America for opera, and they're all looking forward to the new building.

By way of background, the government has dramatically cut its support for the cultural community. We heard yesterday from a group of theatres that had seen their support cut by $2.5 million. To try and make it up, the government is saying, "We're going to forgive many property taxes." Well, it is the municipalities that pay for that, and the municipalities are being asked to pick up social housing, social assistance, child care, all sorts of new costs. Forgive me for being mildly cynical. The government slashes the support for the cultural community and then orders municipalities to cut property taxes, because it costs the provincial government zero and it costs the hard-pressed property taxpayers the money that was provided in property taxes.

You're caught in the middle. You are trying to do what is right for the opera community and for opera and the cultural community. But this is the reality we face here. The government is getting lots of pats on the back for doing it. It is costing the province nothing; it's all going to be added on to the local property taxpayers. In the process, we're now finding some gross inequities it looks like they're propping up. I think the group that comes next on our agenda here is caught in the middle of this as well. Your organization is caught in the middle, because you are competing for the dollar of the cultural community, and if other cultural centres are paying no taxes and you are paying taxes, it puts you at a disadvantage. You have a good case in logic. In introducing the bill, the government said it wants to help theatres compete on an international scale etc, that Toronto's live commercial theatre is third-largest in the world. I'm thinking maybe it's the third-largest in the English-speaking world, but it's third-largest somewhere.

I guess that's a long-winded way of saying that I have a lot of sympathy for and interest in helping the opera. It is within the context, though, that the cost of this will be borne by the city of Toronto, not by the provincial government. We all know there is only one taxpayer, but in the case of the provincial government, when it cuts support for the cultural community, that is cutting revenue generated province-wide and putting it on to property taxpayers in Metro Toronto, who will be, by the way, particularly hard hit by the dumping of social services on to property tax.

I think you've got a good case, primarily because the government has already set the precedent and has said, "We're going to do it in these cases," and I think you fit that same case. I think this is part of a pattern: Cut provincial support for the cultural community and order the municipalities to provide similar support in reduced property taxes. If you don't get in on that, you'll be at a disadvantage. You can't expect anything from the province and you'll be, by way of timing — if you'd been built now, sitting there, I think you would have been included as part of the legislation.

I hope the government listens carefully to your arguments. As I said, if the building were already constructed, you would be included in the legislation. I think you're an oversight, frankly, that the government can address.

I understand the issue. I don't really have a question. I just have my observation of what we think is happening here. I know you've fought for 15 years, if not 50, for the dream that is now — as I said, I drive by there now and see the building coming down. That's not exactly the shovel. The wrecking ball is on the site, and then the shovel will be in the ground shortly.

I hope there's a way the government can find to accommodate your concerns. Have you any idea what property taxes you would pay if there isn't some relief given?

Mr Gough: There are payments in lieu made by the Ontario Realty Corp. That site is currently a parking lot. Until we commence construction, that portion of the site occupied by the building will become a parking lot as well. I have in mind, from Gord Lassenger, with whom we negotiated, who is the vice-president of the Ontario Realty Corp, that the payments in lieu were somewhere between $350,000 and $400,000, but I want to caution that that's recollection and it may be — but it's in that order of magnitude.

The Chair: Thank you very much for coming today and for an interesting and important presentation.

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COALITION OF PUBLIC THEATRES

The Chair: Could representatives of the Coalition of Public Theatres please come forward. You have half an hour to use as you wish. If you would like to leave time for questions, I'll divide that time between the three parties equally. Would you please identify yourselves for the record and then go right ahead.

Mr Charles Cutts: I'm Charles Cutts, and I'm president of the Corporation of Roy Thomson and Massey Hall.

Mr Roy Reeves: I'm Roy Reeves; I'm the chief financial officer for the Hummingbird Centre.

Mr Glenn Garwood: I'm Glenn Garwood; I'm the executive manager of the North York Performing Arts Centre Corp.

Mr Cutts: I'll proceed with the presentation, and we should have time for questions afterwards.

All of our theatres have legislated public mandates requiring us to promote and advance artistic, musical and cultural productions for the benefit of the public, and to respond to community interests. We all provide access to the theatres for a wide range of producers, without discrimination.

Upon first reading Bill 149 (No. 2), our coalition had concerns that we would be subject to payments in lieu of property tax based on subsection 27.1(1). This was a dramatic change in how we conducted our business, given that we, as public theatres, have been exempt from property taxes. We raised our concerns with Ministry of Finance officials and appreciate that at second reading, the minister proposed an amendment on September 25 in recognition of the importance of not-for-profit operations such as the opera, ballet and symphony. We acknowledge and appreciate the government's efforts.

Today we bring forward three main messages and a change to the proposed amendment to the theatres section of Bill 149 (No. 2). Our messages are: first, the need for financial self-sufficiency of our coalition members; second, concern that this legislation could be perceived as undermining federal charitable tax status which is central to the viability of the Hummingbird Centre and Massey Hall/Roy Thomson Hall; and third, the importance of theatrical and musical productions in Toronto to the economy and tourism industry.

First the importance of self-sufficiency to the members of the Coalition of Public Theatres: Presently, each of the coalition members does not receive any subsidies or grants from the federal, provincial or municipal governments. Our theatres are the only large public theatres in Canada that do not receive subsidies from governments. We have developed unique models of self-sufficiency that work very well. We are proud of these accomplishments as public organizations and are confident that the taxpayers are pleased with our financial independence.

Both the Hummingbird and Massey Hall/Roy Thomson Hall have taken serious steps in developing corporate business plans in the last few years to increase financial accountability and to respond to difficult financial pressures. For example, the Hummingbird Centre 10-year corporate business plan was approved by the city of Toronto to allow the theatre to seek private sector partners for capital investment rather than request government financial support. The North York Performing Arts Centre Corp was created specifically with the intent to be financially self-sufficient and not rely on municipal subsidies. In fact, the North York Performing Arts Centre Corp's Ford Centre has been highlighted by the Toronto transition team as a model of financial accountability to be extended to other public facilities.

Each member has developed financial accountability systems that allow for cross-subsidization of not-for-profit activities, investment in capital improvements and upgrades and financial independence from governments. For example, surpluses generated from commercial productions at the Hummingbird cross-subsidize the resident companies, the National Ballet of Canada and the Canadian Opera Company, both of which are recipients of government funding in recognition of the importance to the culture in Canada. The Hummingbird Centre supports other not-for-profit presentations that fulfil our cultural mandate.

The Apotex theatre at the Ford Centre cross-subidizes the access to and of operations of the George Weston Recital Hall, the Studio Theatre and the Art Gallery of North York, which collects Canadian contemporary art and has free admission. Surpluses generated also support the resident companies, the Amadeus Choir and the North York Symphony Orchestra. Commercial productions at Massey Hall support Roy Thomson Hall and its resident companies, namely the Toronto Symphony Orchestra and the Toronto Mendelssohn Choir. In addition, all coalition members have established capital reserve funds to support capital improvements and investments so as not to be an ongoing financial pressure on government.

The proposed preponderant purpose test, as described in Bill 149, undermines our self-sufficiency. It is a fundamental shift in how we have conducted our business. The new city of Toronto will have at its discretion the ability to create a bylaw to give a theatre a subsidy that represents all or a portion of the amount of the theatre's revenue used to financially support not-for-profit activities that take place on the same property. Take note please that Massey Hall and Roy Thomson Hall would not be eligible for consideration, given that the proposed amendment requires that the cross-subsidization take place on the same parcel of land. We recommend that it take place within the same corporate entity.

We understand the government's interest in ensuring that our public theatres fulfil our mandates and support not-for-profit activity. We have recommended a change to the proposed amendment that will allow the government to meet its objectives and allow us to maintain our financial independence and self-sufficiency. Essentially, our recommended change will require that public theatres demonstrate cross-subsidization. Then the municipality will allow a deduction from any payments in lieu of an amount equivalent to the cross-subsidization.

We propose that the present definition of "subsidy" under subsection 27.1(2) be replaced with the following: "Any amount under subsection (2.1) that the owner is permitted to deduct from the payment."

We suggest that subsection 27.1(2.1) be replaced with: "An owner shall be permitted to deduct from a payment under subsection (2) an amount that represents that portion of the theatre's gross revenues from performances of productions described in clause (b) of the definition of 'large commercial theatre' in subsection (1) that is used to fund or financially support other performances or not-for-profit activities that are undertaken by the corporate entity owning the theatre."

Our federal charitable tax status: Secondly, we are concerned about the implications of the proposed amendment for the continuation of the federal charitable tax status for Hummingbird Centre and for Massey Hall and Roy Thomson Hall. The ability to fund-raise, conduct ancillary activities such as parking, and refreshment sales and stage commercial productions to generate revenue to cross-subsidize our not-for-profit activities is fundamental to our livelihood. Without it, our ability to fulfil our mandates is seriously jeopardized. This is why we are concerned.

The proposed amendment subjects our members to a preponderant purpose test where our activities may be deemed as for-profit if we stage commercial productions for more than 183 days a year. There is no question that we fulfil the same charitable objectives that originally earned us this status. The preponderant purpose test ignores the reality that our activities are dedicated to a charitable purpose. If we stage commercial productions for 184 days, are we any less of a charity? Not now, according to Revenue Canada, the body with the authority to make that judgement. Is a theatre in Kingston, London or Thunder Bay any less of a charity because of that? Not now.

You will understand that adoption of this principle could have repercussions more broadly than property taxes. Of course, we do not know this to be the case, but we do know that this approach to our activities is wholly inconsistent with the interpretation of the meaning of "charitable status" for taxation purposes and has the potential to have devastating consequences.

Loss of charitable tax status or taxing of partial or ancillary activities will have a significant negative impact on the day-to-day operations of the theatres in promoting and fulfilling our public mandates. The charitable tax status allows the theatres to generate ancillary revenues exempt from income taxes to cross-subsidize activities that directly support the public mandate of the theatres. Revenue-generating activities within a charity or not-for-profit organization are not subject to income tax, in recognition that they play an integral role in supporting the viability of the whole organization.

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Economic benefits: In closing, we want to tell you how we all benefit from this diverse theatre community. As you know, Toronto is the third-largest English-language centre in the world after New York and London, boasting a theatre sector with annual revenues exceeding $130 million. We also rank third internationally for the most live music venues.

More than 180 Toronto companies stage a mix of Canadian and international productions, averaging 75 different shows a month and 10,000 live performances a year. There are over 70 theatre venues in Toronto, from converted firehalls and factories, to restored vaudeville houses, to modern performing art complexes. The total capacity is over 43,000 seats. Our coalition alone provides almost 12,000 seats, over one quarter of the Toronto capacity.

In other words, our vibrant theatre and music community makes Toronto an international artistic and cultural destination. Approximately 50% of our audiences, or 3.5 million people, are tourists from outside the greater Toronto area. Approximately one in four tourists attends a live theatre production when in town. We all know tourists bring foreign currency to Ontario, spend money on hotels, restaurants and stores and contribute $4.76 billion to Toronto's economy annually.

Another major contribution our theatres provide is jobs. Our three complexes provide a total of 1,200 permanent and part-time direct jobs.

Our members play an important role in promoting diversity in the sector. In many ways, the Hummingbird Centre, Massey Hall and Roy Thomson Hall and the Ford Centre are anchors for the many exciting small theatres in Toronto. Synergies have developed between large and small theatres, and profit and not-for profit. Commercial theatres depend on the public theatres as a training ground for skilled technicians, performers and producers, and small not-for-profit producers rely on theatres with fewer than 1,000 seats to stage their unique productions.

For all these reasons, we support the proposed property tax amendments for both the commercial and small theatres in Toronto. However, the arbitrary decision to impose payments in lieu of property taxes on some theatres disturbs this balance. Therefore, adverse impacts to a significant component of the theatre community will have implications for the rest of the industry.

We would like to conclude by saying that we trust that the committee members will seriously consider our proposed change to the amendment that allows the government to meet its objective and allows our members to maintain self-sufficiency and financial independence from government. As you discuss further the implications of Bill 149, we trust that you will take into account our concerns about the viability of the Toronto theatre community and the potential implications for loss of charitable tax status to two of our coalition members.

Thank you for listening to our concerns. We are pleased to respond to questions you may have.

The Chair: We have approximately 16 minutes left, and we will go to the NDP caucus first.

Mr Pouliot: Your situation is difficult, for you have a lot at stake. It's also challenging to come up with accurate figures, for we simply don't know. It's not a two-and-two-make-four world. The province is the recipient of an entertainment tax, a sales tax — taxes and taxes. It's revenues for the province and the federal government as well and the municipality of Toronto.

You cite examples of non-profit, examples of fewer than 1,000 seats as a definition. Those, by provincial decree, will be exempt from municipal taxation.

I have on the one hand, candidly, some difficulties. I don't totally agree with the 183 days, and you have made that point abundantly clear. If I make a profit on the charts, I pay a capital gain. I might get a dividend tax credit, but I do pay for a profit. People who make profit, make a gain, pay taxes. That's the difficulty I have on the

one hand, and yet, with respect to balance with your needs and the contribution that you make — of course you make an immense contribution — by the same token, if you make a profit, shouldn't you pay taxes?

Mr Reeves: You need to understand that the model we're dealing with here is not a profit-making model in the sense that the organization is profitable, so the capital costs are not costs of the business. Capital costs under a municipality are historically paid by the municipality. We have created a model where we have taken the surpluses and applied them against that capital cost to reduce the burden on the municipality of having to have the venue funded. I'm not sure if that helps.

Mr Garwood: In North York's circumstance, our motivation for building a theatre in the first place was not only to bring culture uptown to the suburbs but to bring that in a way that wouldn't be a burden to the taxpayer, because these centres such as ours historically lose lots of money.

Mr Pouliot: With respect, I know that culture is in your nature. My focus is whether you make money or not — I won't vulgarize your contribution by saying you're already in the entertainment business. We have places of worship, we have the grey eminence from the Scientology church with free IQs. Everybody wants to be treated fairly, everybody is unique, and nobody wants to pay more than some taxes, in fact, in many cases, no taxes.

The thing is our vice-chair, our parliamentary assistant, Mr Grimmett, has mentioned the Toronto Maple Leafs, like the true puckster that he is. It's a reality of the day. They are in the theatre business as well, except they don't go in the corner to get the puck. That's damaging. They are in the entertainment business. They pay taxes. The Blue Jays pay taxes. Theatre entertainment should not? I say if you make a profit, justify to me why you shouldn't pay taxes like everybody else. If you don't make a profit, we want to wish you well; you should be exempt from any taxes.

The Canadian Opera Company made an excellent presentation to us, long awaited. We want to wish them well. If I had my say, they wouldn't pay any taxes, for they are non-profit.

I'm sorry, but that's my position, sir. We differ.

Mr Phillips: This area is getting quite confusing because in my opinion, what's happening is the government has cut support from the province for the cultural community, and it is trying to make it up somehow by saying to the municipalities, "We're going to order you to not have property tax coming in," and it's quite a clever, creative political move, because on the one hand the government does what it wants to do, which is to cut support for the cultural community, but then the cultural community comes in and thanks them because they've ordered the municipalities to cut property taxes — at the same time, I might add, as property taxes are now picking up 100% of the social housing costs, a huge part of the social assistance cost, all sorts of new costs. We have had several groups come in who have thanked the provincial government for doing this, for ordering the municipalities to cut their revenue on property taxes.

Having said all of that, the challenge is — somehow or other you're caught in this storm, because currently you pay no property taxes. If my memory serves, I remember that the Hummingbird Centre and the North York performing centre and I think Roy Thomson and Massey Hall are all non-profit organizations. They operate on the basis of trying to break even. Whatever revenue is taken in, if there is more revenue than expense, you invest it in either capital upgrades or cross-subsidization for community groups and things like that.

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Now you're faced with a new expense, which was never there before, which is being ordered to pay property tax. Your nightmares begin to start again, because I think all of your organizations, at least Thomson, Massey and Hummingbird, less so North York, have gone through some challenging times over the last decade; not North York. Then you were asking the question, "Why us?" because what seemed to be a policy of encouraging the arts community is getting you caught with discouraging the arts community. Frankly, I can't quite understand the policy of this. What the government has said in its compendium doesn't seem to hold true. As I say, for smaller theatres, no property taxes. I gather the Princess of Wales and Pantages and what not are going to get some tax breaks. Why do you think you are being put in this position of suddenly having to pay potential property taxes? Have you been given a reason why the government wants that to happen?

Mr Cutts: No, we haven't really been given a reason. We're trying to find a method out of this. If we can demonstrate that we do cross-subsidize our own presentations or not-for-profit activities, make us exempt from it. We're trying to cope with the legislation that's been put before us. But none of us has paid property taxes. Our corporation has been in existence for 104 years, since the founding of Massey Hall. The Hummingbird has been in existence since 1960, so 37 years, and to my knowledge hasn't paid property tax, at least since the O'Keefe Centre came under the municipality of Metropolitan Toronto.

Mr Phillips: If the bill goes through as it is, can you give us any idea what the implications might be for organizations? I'm familiar that many organizations use your facilities; in fact, I'm intimately familiar with those that use your facilities on a one-shot basis for cultural activities.

Mr Cutts: If I may, perhaps the best example would be Massey Hall. About five or six years ago, we were fortunate enough to have a long run of the commercial presentation of Cats, and during that year the commercial producers rented the hall, and I presume they made a good profit. The stability of rent allowed us to cross-subsidize some improvements at Roy Thomson Hall; in other words, the generation of money from that activity helped us to cross-subsidize the Toronto Symphony Orchestra at a time when government and other financial pressures were on that symphony. We took a 25% rent reduction from the

Toronto Symphony in 1992, and that subsidization alone was approximately $300,000. Our corporation would not have been able to do that had we not had the profits from the activity of Cats at Massey Hall one or two years earlier than that. That's the sort of magnitude, and also the fragility, that $200,000 or $300,000 is an important sum of money for our corporations in order to exist.

I'd like to add the point that I'm not sure everybody realizes what a great thing we have in Toronto right now, with three large complexes receiving no government grants whatsoever for our operations. It doesn't exist anywhere else. The National Arts Centre in Ottawa takes an operating grant somewhere in the vicinity of $15 million to $18 million a year. Every other theatre across this country receives some sort of subsidy. We have a mechanism right now that works, and what we want is to preserve the status quo.

Mr Grimmett: First of all, I want to make the statement that the legislation, as I'm sure you've heard from the ministry before, is an attempt to level the playing field between private and public theatres and between profitable productions, regardless of whether they're held in public or private venues. Just to clarify your situation, I take it that you are all officers representing non-share capital corporations; you all have charitable status. Correct?

Mr Cutts: Hummingbird, Roy Thomson and Massey Hall have charitable status.

Mr Grimmett: And you operate in buildings that are owned by the municipality, is that right?

Mr Cutts: Our building is a creature under the provincial statute, where Massey Hall and Roy Thomson Hall have their own act that was passed in 1982 or 1983.

Mr Grimmett: But all three buildings are owned by the public.

Mr Cutts: Correct.

Mr Grimmett: Does your corporation pay rent?

Mr Cutts: We pay a nominal $2 to Marathon per year for the site that Roy Thomson Hall sits on. There's a lease in perpetuity on the land as long as there's a concert hall there, and there is a nominal amount of rent. Our corporation owns outright the land and the building, Massey Hall.

Mr Grimmett: I see. And you book performances, and some of those performances are commercial performances.

Mr Cutts: Commercial?

Mr Grimmett: The people coming in are making money.

Mr Cutts: We would rent the theatre to commercial producers to make money, yes.

Mr Grimmett: And of those rents, that are presumably high, you use the surpluses to provide the theatre at a lower cost to other types of productions.

Mr Cutts: That's correct.

Mr Grimmett: What is your argument on the preponderant use test? I'm having difficulty following it.

Mr Cutts: If a facility goes over 183 days per year, there are going to be property taxes levied on that proportion. That is going to raise the cost base dramatically, and at the start of the year, we perhaps don't know whether we have 183 days of commercial usage or not. Presuming we were able to get a run into Massey Hall, what do we do? Go back and charge all the people a surcharge, if you will, for the property tax? Not likely, if the show is closed at the beginning of the year. Even the imposition of how we would enforce it would be very difficult for us.

Mr Grimmett: Do you not plan your schedule a year in advance?

Mr Cutts: We do bookings as short as five and six weeks ahead.

Mr Grimmett: What is the average distribution between so-called commercial and non-profit type of operations?

Mr Cutts: Last year, we had 70 event days at Massey Hall. If we were able to get a long run in, we would book it in a moment, and a long run could be another commercial presentation coming in and renting that theatre. If, however, when we had to declare how much the rent was — we'd have to factor in whether the property taxes were going to be levied or not, because from my understanding of what the property taxes to Massey Hall would be, they would be equal to or greater than what the rent is per night of attraction at Massey Hall, and that would throw off all the reason for putting on the activity whatsoever.

Mr Grimmett: The legislation is designed to focus on the type of production that's put on, not whether the production is profitable or not. The design of the legislation is to make sure that productions in public facilities are treated the same way as those in private facilities. That's what we're attempting to do with this. Can you explain to me the test you're suggesting a little simply?

Mr Cutts: We're trying to get a simple formula for this government to put into power that takes away the power from the municipality as to whether they give us a property tax exemption or not, and if we can demonstrate that we cross-subsidize our own not-for-profit activities or cross-subsidize it to tenants of ours, we'd like the amount of property tax to be waived.

The Chair: Thank you very much for your presentation.

Mr Grimmett: I would like to add, Chair, that we've had a legal opinion that the federal charitable status enjoyed by these groups would not be jeopardized. That's the legal opinion we've received.

Mr Cutts: We hope that's the case.

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T. EATON CO LTD

The Chair: Could Chris Appleton of the T. Eaton Co Ltd please come forward? Thank you for coming today. You have half an hour to use as you deem appropriate; if you leave time for questions, I'll divide it equally among the three parties. Please introduce yourselves for the record and go ahead.

Mr Chris Appleton: Thank you, Mr Chair. My name is Chris Appleton, vice-president of real estate, the T. Eaton Co Ltd. Karin Chepswick is with me today. She is director of our property tax department.

Mr Phillips: I just wanted to ask if you have a brief.

Mr Appleton: Sorry, we don't have notes for you. I'm sure you will be receiving ample briefs from others that will speak to some of the issues I'll address today, in particular from the Canadian Property Tax Association. We're involved in that, as well as another group called the Retail Fair Tax Group. They will be more exhaustive in their presentation. I wanted to come today on behalf of Eaton's only, to focus on one main point.

Let me start by saying that we are supporters of property tax reform. We are certainly supporters of fair market assessment, actual value assessment. That's an obvious statement because we win on that. We think it's fair. We'd like to ensure it is the system that prevails for the tax bill we pay. You know we're not the recipients of the tax assessment per se; the shopping centre owner typically is.

The problem I want you to focus on throughout this from our perspective is, what happens if our assessment is wrong? Presently we get a separate assessment for business tax. We know that's being eliminated. That business tax assessment has been that avenue that has allowed us to appeal our assessment. If you take that away, we don't have an effective appeal right if the assessment is wrong.

Let me say the assessment community has been very professional and we work very well with them. We're a big enough taxpayer, in effect, to have the ability to do that; we have dedicated tax people. We have confidence in the bureaucracy to treat us fairly, but we believe it's important that there be some avenue in the event that there is an imbalance in the assessment. There could well be an imbalance because of the pressure brought by other taxpayers in that same shopping centre. The CRUs I'm sure will be lobbying to make sure the anchor tenants pay more. That's an ongoing issue. Everybody's well aware of that. I don't propose to say any more than that we endorse a fair market assessment, pure and simple. Keep it in place, and if it's wrong, we need recourse somehow.

I can't sit here and ask for a separate assessment, because I believe that's a non-starter, but I would ask you to focus on some mechanism to allow us to get at a faulty assessment. If it is a right of reconsideration, that is one avenue available. Let me reiterate that we have confidence in the assessment community; we just need to get at it somehow. The real problem could be that if we are over-assessed relative to the CRUs but the aggregate assessment is low, we're stuck; we can't appeal anything, because the on-block assessment might be okay.

We're very concerned about that; we have some experience in other provinces where that is a problem. We work it out on the fly with the assessment community, but now this is the fourth province that has proposed to go into this kind of scheme, and we'd like to ensure we get whatever recourse we can have enshrined in legislation.

That's the simple point I have for you today. I could go on at some length about many other issues. I'll let others do that. I'll let the Retail Fair Tax Group give you the long explanation. But I wanted to reinforce it, because it's very important that we not be stuck with a tax bill that's too high. Everybody knows our situation this year. It's a tough environment. We lost a lot of money last year. I'm not blaming it on taxes, but we do pay \$22 million a year in taxes in Ontario, so it's a significant cost. If that gets too far out of line, we have a problem. I'm not saying we shouldn't pay taxes; of course we should pay taxes. We want to pay our fair share of taxes and ensure it remains our fair share and that the tax bill that goes to the landlord for premises is the tax we pay.

That's my simple point for today. I just wanted to focus your attention on that as the key issue. I think you'll find that that is a key issue for all tenants, big or little. The little guys will want to get some relief on the tax increase they're going to face. I don't propose to speak to that today.

The Chair: Thank you very much. We'll start questions with Mr Phillips. There are 26 minutes left, so you've got lots of time.

Mr Phillips: I just want to make sure I understand your issue, which is tenant access to the basis on which the total assessment was assigned to the property owner.

Mr Appleton: Yes. It's essential to have that to determine whether it's a fair bill.

Mr Phillips: Okay. And is there something more than that that you're —

Mr Appleton: And recourse if it's wrong. I have to know what it is and how can I fix it.

Mr Phillips: And would that be recourse to the assessment review process? You're asking for the legislation to provide recourse for the tenant to appeal that at the assessment offices?

Mr Appleton: Well, somehow. Right now it's a full appeal right. What's proposed for the landlord is a right of reconsideration. At the very least, we would like the tenant to have a right of reconsideration for the tenant's piece. That assumes that we get that information, yes.

Mr Phillips: Just help me along a little bit. Here's how I understand the way it would work. Cadillac Fairview is told, "X shopping mall is assessed at such and such, and your realty taxes now will be X." Each of you has a lease with Cadillac Fairview that provides for the flow-through of the taxes, so the landlord would say: "All right. My taxes are \$2 million. T. Eaton will be assessed X share of that." Who makes the decision on how the landlord makes that assessment? Is that based on your lease agreement or on legislation?

Mr Appleton: The lease agreement provides that the assessed value, as determined by the assessment authorities, flows through to us. We pay what we call the separate assessment. Presently we find that information by virtue of the business tax assessment notice, which is in effect an apportionment to each tenant of their share of the assessment. We pay on that basis.

Mr Phillips: Would your current lease typically have that you pay your business occupancy tax directly but that you then pay to the landlord the realty tax that is your assigned realty tax for that —

Mr Appleton: Correct, as determined by the assessors, because we are one of several pieces. The assessor will look at the anchors, all the CRUs.

Mr Phillips: Help me on the legislation. Will this legislation dramatically alter the basis on which that the total assessment is determined for a shopping mall?

Mr Appleton: The determination of the aggregate assessment?

Mr Phillips: Of how it's apportioned by tenant.

Mr Appleton: How it's apportioned I'm not quite certain, because I don't know what we're going to receive in terms of the apportioned values. Presently we're not scheduled to receive anything at all, so we would have to go through the layers, ask the landlord to provide it or to provide somehow access to the assessor and get at that information, and rely on our lease, which typically provides that the landlord has an obligation to do that, so we could go get that information.

Mr Phillips: With my limited knowledge in the area, I can remember in Metro about three years ago a serious problem with small tenants. I think some of the anchors had appealed their property taxes and had got a substantial decrease, and the property owners reassigned the cost back: If you go down, they go up. The problem then was that everybody, the small tenants, had signed a lease around the rental costs that took into account what they thought were lower taxes. Are we likely to run into a similar circumstance here where your rental costs have been negotiated, presumably, on the basis of an expectation of how property taxes are going to be allocated, but this bill will allocate property taxes in a different way, and small tenants will find they pay a larger rental cost per square foot and their property taxes will be disproportionately allocated to them? Is that a possibility of this legislation?

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Mr Appleton: I think it's already in place, in many cases, to the extent that assessment jurisdictions have gone to fair market assessment; that's already happened. That's a real issue. There is a shift in taxes from anchors to CRUs, no doubt about it. We think it's a fair system now. It happened three years ago, you're right. It was big news. It was in the papers. In fact, the anchors were required by a regulation to pay more taxes than pure fair market value.

Mr Phillips: Now that regulation is gone, with this bill. Is that right?

Mr Appleton: I believe it'll be washed out in this bill. I'd have to check on that precisely, but it was reimposed last year. It should get wrapped up through this. We should end up at fair market value. That's not the problem for us; it's clearly a problem for the CRUs. I think that's just going to happen. What will happen is that if the component goes up for that CRU rent, ultimately the minimum rent payable by that tenant is going to go down. The landlords are upset about that; it's going to reduce their actual return on their asset.

That's a real impact — I'm not saying that's not an impact — but we have to live with that. That's where we should be. When we go into a lease deal, we don't say, "We're going to pay so much, and a piece of it is taxes." We typically look at the rent we can afford to pay, whatever it is, $4, $5, and then we'll pay our taxes on top, and we want to make sure they're not out of line. We think taxes assessed on a fair attribution of rent or a deemed rent or whatever we come up with will pay that, and currently I think we're in pretty good shape. Our concern is, what if it gets out of line?

Mr Phillips: Help me out a little bit on why the government would not want you to have access to both the basis on which the assessment was done and then some appeal mechanism. We haven't heard a reason. We speculate that it's because they're expecting half a million appeals around the province on property taxes and simply wouldn't want to add a bunch of retailers to it as well. Have you any indication of why the bill does not provide you with what you want?

Mr Appleton: I personally don't have any indication of that. I can only speculate that it's an effort to reduce the number of appeals, because one shopping centre on one appeal is a lot easier to administer than 100, because you could have that many tenants. I haven't actually asked the government, so I would have to defer to others who may have an answer to that.

Mr Grimmett: I'll see if I can try to clear some of this up, but I think inevitably it'll lead to more questions from me similar to those asked by Mr Phillips, because this is an area — I think it's most helpful to the committee that we have people like you come in here and provide your expertise and enlighten us.

First of all, the elimination of the business occupancy tax was meant to simplify the job of the assessor. It would no longer be necessary for the assessor to go into every commercial property and spend a lot of time with a tape measure or whatever method they use to determine each individual business and the value.

Perhaps you can help us try to understand the situation better and deal with the issue you raise, because it is one that many people have a concern about. In a typical commercial situation, the landlord is going to get an assessment notice. Currently, that assessment, in a large operation, is determined on the basis of incomes businesses earn. Is that correct?

Mr Appleton: I believe it's in most cases. Certainly when you go to an income approach with fair market value, that is the mature case.

Ms Karin Chepswick: Fair market rents.

Mr Grimmett: It's based on the rent you pay?

Mr Appleton: Not on our actual lease rents. The assessor typically will determine that the premises have a fair market rental value.

Mr Grimmett: And that is based on the income that business earns.

Mr Appleton: That's right. The assessor will attribute, say, $5 a foot to the anchor space and let's say $30 a foot to the CRU space, take the total income, apply a capitalization rate, and you get a value.

Mr Grimmett: That may be one of the concerns the government has in opening up the informal side of the

assessment appeal process to individual tenants. For example, in the Eaton Centre — who owns the Eaton Centre?

Mr Appleton: Right now, Cadillac Fairview and the Toronto-Dominion Bank. We're out. We just have a lease.

Mr Grimmett: All right. Let's say Foot Locker doesn't like the amount of tax that's being flowed through to them. Should they, in an informal phone call or a meeting with the assessment department, have access to the financial information for all the other tenants in the building?

Mr Appleton: No.

Mr Grimmett: Isn't that the issue here?

Mr Appleton: No. Our issue is to make sure that the value attributed to our space is fair.

Ms Chepswick: Also, the fair market rent is not specifically based on a tenant's income. It is what the assessor deems to be fair market rent, negotiated in the open marketplace, for that type of space. It does not identify contract rent; it does not identify a tenant's income. There really is nothing specifically confidential except for what is generally available in the open marketplace. If Foot Locker were to approach the assessor, they would find out what the assessor's fair market rent determination would be, and he would not get access to any real proprietary information from other businesses.

Mr Grimmett: I'm going to leave it at that and think about that one and let my friend from the third party go at you.

Mr Pouliot: First, let me apologize — the Chair would wish me to do that — for the noise from the demonstration outside. This is almost a daily occurrence. It makes it increasingly difficult to work here. Those are constituents, people like you and I, who come and voice their disapproval of what this government is doing to them. Please bear with us. It's almost a state of siege.

Let me wish the T. Eaton Co very well in their restructuring. I think you've gone about it the right way. I see that even your relationship with vulture capital, vulture funds — for they are exactly that — has proven quite well. The banks got advance payments, all in cash; they've done quite well. There was, from the private entity that T. Eaton is, not a contribution in kind, but real cash, exceeding $30 million, I'm told, so that augurs quite well. You've been an institution.

I get the impression, listening to your presentation, that the T. Eaton Co will benefit more by assessment than by Bill 149. Am I right?

Mr Appleton: Financially, fair market assessment is the win for us.

Mr Pouliot: That's a catalyst. That's it. That's your presentation, right, centred around assessment?

Mr Appleton: And that is in place in many jurisdictions. Yes.

Mr Pouliot: I wonder how the small retailer would feel if, let's say, taxes go up slightly. It could happen. They could go down slightly, they could remain the same or go up slightly. But the consensus we're getting is that there is the likelihood of a small increase, because they don't know where the transfer payments, the adjustment payments, will fit in yet. Until that is resolved, the consensus is that taxes are likely to go up. You benefit and the small retailer picks up the slack. And then the municipality uses your gain to come up with a subclass of taxes and adjusts the multiplier, the mill rate, so that the money you save on the one hand they take right back with the other. Is that a possible scenario?

Mr Appleton: Absolutely. We are exposed to a multiple tax rate. We are exposed with multiple classes. I didn't get into that today because I wanted to focus particularly on the bill.

Mr Pouliot: So we're not to celebrate too early, unless the government dictates — and they're not opposed to that, believe me — to the municipality who they should tax and who they should not tax. They're pretty bold that way. It's part of what they call the Common Sense Revolution. They just push their agenda forward that way.

Unless there is that protection for the T. Eaton Co and others, you could be left — they don't mean ill to anyone, but the municipalities need the money. They could readily just fill the vacuum by bylaw. It could be done tomorrow. In fact, you wouldn't even see the cheque. The money that you've worked to save could just be compensated for by the multiplier. "We'll adjust the mill rate to get the money back," because there are a lot more small retailers than there are big ones, and a lot more residential. Everybody votes, but we only vote once. There's a lot more residential, and social housing to address, people who are marginalized and are the less fortunate. I mean, they're out there. Can you hear them?

I want to wish you well, but I don't know if I would roll the dice. I wouldn't wish to be in your shoes. It's two months before, and we don't have any guarantees. There are all kinds of questions, very few answers. I feel we have an excellent civil service. They're committed, they're dedicated, but if you see anybody with handcuffs and a straitjacket, it's the civil service walking back and forth in the corridor, because it's impossible to get some information from these people. We don't even have an impact study. Anyway, good luck.

The Chair: Thank you very much for coming and for your presentation.

The committee recessed from 1202 to 1305.

MARVIN GOODMAN

The Chair: Our first delegation this afternoon is Marvin Goodman. For the record, would you please identify yourself, and then you have half an hour to use as you wish. If you wish to make a presentation and leave time for questions, I'll divide that time equally among the three parties. Please go ahead.

Mr Marvin Goodman: I'll be brief. Good afternoon to the committee. My name is Marvin Goodman. I'm here representing the Goodman family, who are the owners of a farm of 100 acres located in Mississauga at the intersection of Derry Road and Kennedy. The Goodman family have been in the farming business for many generations.

Going back briefly, my grandparents came from Poland and Europe; there, they were farmers. They inherited a farm from their parents; they had a dairy farm as well as orchards. They emigrated to this country in 1916, and after a long while of saving their pennies they bought another farm at Weston Road and Jane Street, where they again continued farming. This was in approximately 1936. The land there became unsuitable for additional farming because of the encroachment of commercial areas, and they gave that up and for a while nothing else happened.

In 1950, we went out to Mississauga and saw a farm that grew strawberries, and we bought that farm, on Winston Churchill Boulevard. That was in 1954. We still own and have that farm in our possession.

In 1964, we bought the farm under consideration today, at the intersection of Kennedy and Derry Road. There, we proceeded to farm and have done so for the past three and a half decades to this very day, and we still do.

There was a period in the late 1980s where there was a lot of talk of residential and commercial/industrial development going on in the city of Mississauga. The land owners around us were rezoning their properties with the idea of possibly selling them in the near future. We entered that zoning process in order to protect our interests and see that we weren't squeezed out during the process of others getting their zoning and development. We continued farming, and still do, as I mentioned earlier, except for one period in 1987-89, during which time we had some management problems internally and we let the land stay fallow for that period. But immediately thereafter we again resumed farming.

At the moment, the city provides us with no services. The land has exactly the same status it always has had. There has been absolutely no change in the property since the day we bought it. The only change that has occurred is that three years ago the property was reassessed, and the reassessment changed the taxation from $3,000 per annum to $300,000 per annum, an increase of 10,000%. Needless to say, this was unacceptable and impossible for us to bear. It would mean that the property would have to be sold, even, if necessary, to sell it at distress in order to meet the $300,000-per-year payment for taxes.

It is our feeling that the situation is too onerous for us to bear. We are looking to the committee to reverse that position and make it acceptable for us to continue with our farm and our farming operations. That, in summary, is my position.

The Chair: Thank you very much. You have about 25 minutes left. I will allow questions from the different caucuses. We'll begin with the government caucus.

Mr Grimmett: Mr Goodman, you indicated that the farm at Derry Road and Kennedy is 100 acres?

Mr Goodman: That's correct. Excuse me, 96 acres, to be exact.

Mr Grimmett: What kind of farm operation do you have there?

Mr Goodman: Currently we are growing grains, basically feed grains.

Mr Grimmett: When did you rezone the property?

Mr Goodman: It was in about 1986, I believe, or 1987. I'm not exact on that.

Mr Grimmett: How long did the process to rezone it take?

Mr Goodman: I can't say for certain.

Mr Grimmett: What is it zoned now?

Mr Goodman: I believe it's zoned as industrial/commercial.

Mr Grimmett: Presumably the current annual taxes of about $300,000 are a reflection of the market value of that much industrial/commercial property in that part of Mississauga?

Mr Goodman: I can't address that. I'm sorry.

Mr Grimmett: Have you read Bill 149 or are you at all familiar with Bill 149?

Mr Goodman: Not in its entirety. I have glanced through it, but I'm not that cognizant of it.

Mr Grimmett: This property that has been rezoned, would you say that it is in the process of being developed for eventual industrial/commercial use?

Mr Goodman: That's a thought we've had, especially since this assessment.

Mr Grimmett: Can I ask who "we" is? Is that you and your family?

Mr Goodman: That's correct.

Mr Grimmett: I assume you were part of the decision to rezone the property industrial/commercial.

Mr Goodman: That's correct.

Mr Grimmett: What is your plan currently if you continue to pay $300,000 a year? I don't think you'd get that from selling grain.

Mr Goodman: Exactly.

Mr Grimmett: What is your plan, if you don't mind disclosing it?

Mr Goodman: To be candid with you, we haven't formulated a plan. We're hoping that something will be done to let us avoid having to take any steps in terms of disposing of the property.

Mr Grimmett: If you're so interested in operating it as a farm, why did you zone it industrial/commercial?

Mr Goodman: Mr Grimmett, I explained that the surrounding neighbours were in the process of rezoning their properties. It was our information that if we didn't do something, we might get squeezed out in the process and somehow get the lower end of whatever was available. As a result, we were told we should go through that process just to protect ourselves.

Mr Grimmett: So you had to make a choice to go to some other kind of zoning, and you chose industrial/commercial as the better option because you didn't feel you could leave it as farming?

Mr Goodman: I don't think that was our choice. I believe that was what the area was in general zoned as.

Mr Grimmett: All right. Well, I think your situation is perhaps somewhat unique. But as you haven't read Bill 149 or are not familiar with it, I think I'd rather just pass my time on to the next party.

Mr Pouliot: I will pursue Mr Grimmett's line of thought. Welcome, Mr Goodman. You are appearing in

front of the committee as a private citizen, a citizen who is in a bind.

Mr Goodman: Absolutely.

Mr Pouliot: I know my colleagues well enough, and they will afford me the latitude to say the following: I think we all feel the same in sharing your impasse, your dilemma, that no 96 acres of land will yield enough revenue to pay $300,000 in taxes. Even the most productive 96 acres with the Medellin cartel would not yield $300,000 in taxes. I don't speak from experience here, but it's not that lucrative.

I need your help. You asked for a zoning change.

Mr Goodman: That's correct.

Mr Pouliot: Were you aware of the consequences taxwise?

Mr Goodman: Not at all.

Mr Pouliot: I would ask for a zoning change — I'm trying to put myself in your shoes — if a deal was imminent; if Tridel, Cadillac Fairview, Campeau Corp, if a major corporation was to approach me and wished to build. If they required me to enact a zoning change, I would do that or if I myself and the family had some plans. Otherwise, it would be nothing short of financial suicide.

Mr Goodman: In hindsight, I agree with you.

Mr Pouliot: Again, the fact that you're here means the system works. I don't have answers to your problem. I don't even know if it's possible to petition to have another zoning change back to what you were.

Mr Goodman: I'm unaware if it is.

Mr Pouliot: I know people are terribly busy, but they're well meaning. I will leave it with the good office of our good Chair to have someone from the ministry help you. Of course the committee and government cannot do this for everyone. But you've extended the courtesy of your time, you're paying us the compliment of your visit, and you believe that somehow we will listen. I have nothing else to say, but I think we should see what we can do so that the situation of Mr Goodman can be looked at a little more closely.

Mr Grimmett: I'll certainly undertake to do that.

Mr Goodman: Thank you, gentlemen, very kindly.

The Chair: Actually, there is a little bit more time. I'd like to give Mr Phillips the opportunity to ask you some questions as well. Mr Grimmett is the parliamentary assistant to the finance minister. He has agreed to undertake to investigate on your behalf.

Mr Goodman: I appreciate it.

Mr Phillips: That's probably the appropriate approach, because frankly your issue is only barely related to the matter before us, which is Bill 149; it's only indirectly related to it.

Mr Goodman: I understand that.

Mr Phillips: I'm glad Mr Grimmett will undertake it. It's not unusual, actually. I've seen people in similar circumstances, where they have land zoned agricultural and they hear that all the land around is going to be rezoned, and "What do I do?" There's always this fear that the ones who are in the business, because they're in the business, will leave you somehow rather isolated. So I understand how you got into this situation. I can see that every day that goes by there's another $1,000 on your tax bill, and you multiply $1,000 by a significant number of days and pretty soon you're bankrupt. So I think Mr Grimmett will get back to you, and that's good.

Mr Goodman: I thank you all.

The Chair: Do you have anything else you'd like to add? You have more time if you'd like.

Mr Goodman: I think everything has been covered, and I wish to thank everybody for their time in listening and giving me the opportunity.

Mr Pouliot: Just if I may, I've taken note listening, yours is a real human dimension story. Help me. In 1916, your grandparents who came here, they didn't have much, did they, Mr Goodman?

Mr Goodman: Very little. They came with the shirts on their back.

Mr Pouliot: They thought they had a lot to look forward to, and they did indeed.

Mr Goodman: No doubt and no question. They were as thankful as you could possibly be; they made certain that I was aware that they were. I still don't understand, quite honestly, what was their guide.

Mr Pouliot: Yours is very much the history of our vast and magnificent land. That's what Canada is all about, in good times, bad times. You cited 1936. The Great Depression spared hardly anyone. Through difficult times, when all was dark, they could see the stars, they kept believing and believing, and then by the stroke of a pen — maybe we should all be more careful, exercise due diligence. But sometimes we don't have resources and knowledge. But all those dreams could be shattered, all that history.

Mr Goodman: When I was growing up, when they would tell me how thankful they were to be here and how the very ground was sacred, I couldn't understand it. It wasn't until my later years that I was able to comprehend somewhat, but not totally, what they meant by it.

Mr Grimmett: Mr Goodman, the gentleman at the back with the red shirt on will get the information from you, and I will correspond with you. Bill 149 tries to take into account your situation. If you haven't reached the draft-plan-of-subdivision stage, you should at least be in the lowest quarter. But that's something I'll discuss with you at another time. Thank you for coming.

The Chair: There will be a five-minute recess while we're waiting for the next delegation.

The committee recessed from 1322 to 1328.

HOTEL ASSOCIATION OF METROPOLITAN TORONTO

The Chair: The Hotel Association of Metropolitan Toronto, Mr Rod Seiling.

Mr Rod Seiling: My name is Rod Seiling. I'm president of the Ontario Hotel and Motel Association and the Hotel Association of Metropolitan Toronto. I want to thank you, Chairman, for the opportunity to appear before you and your committee today.

The range of members in our association, which numbers about 1,000, is very diverse. Our members go from the largest hotels in Toronto to the very small in rural Ontario. What they do have in common is a concern that the property tax system provide them fairness and equity. To that end, we congratulate the government for taking the initiative to finally fix the system. Everyone agrees that the old system was broken but no one would come forward to institute the required changes. In doing so, however, the government may be laying the groundwork that future governments could create a property tax system that would be as unfair as the one that is about to be replaced.

Before I get to the specifics, I want to deal with a perception emanating from the passage of Bill 106, that hotels, especially in Toronto, were big winners. What Bill 106 did was provide fairness for hoteliers where the level of assessment was approximately twice that of other commercial properties. This should mean that the property tax burden for hotels should be aligned with that of other commercial property. However, municipalities will have the power to set the tax bands within the tax ratio range that is to be established by the Minister of Finance.

With Bill 149 set to allow for some discrimination of subclasses within the commercial property sector, hotels, for example, could become a discriminated subclass once again. We continue to urge consideration for an amendment to ensure that the creation of any subclass is done through legislation, not by consent of the Minister of Finance. We suggest that this can and will put undue pressure on the minister of the day, no matter who he or she may be.

It is also important to recognize that while the tax ratio for the commercial class is to move to within the range prescribed by the Ministry of Finance, it may still fall out of that range for the first year as long as the tax ratio for the property is less than or equal to the transition ratio for the property tax class in the municipality. In fact, regulatory operations may work so that the tax rate for a property may or may not move to the point where it is that of others within the property tax class. The reason this scenario is a possibility is because of the interaction of the transition ratios, the ability of the minister and the municipality to extend time limits and the municipalities' graduated tax ranges.

Graduated tax rates may be admirable in principle, but they may create as many inequities as they are supposed to prevent. Graduated tax rates for commercial property are intended to address historical underassessment and low business rates paid by small retail businesses. Without graduated rates, some small businesses could face large tax increases. However, as I indicated, problems arise from trying to interject a new level of fairness. Some of those are:

(1) It singles out small buildings, not small businesses, for special treatment. A business operating in a small building can be very profitable, while a small business, even a large one, operating in a large building may not be profitable, relatively speaking. Hotels are a prime example of that. Thus, small businesses in large buildings receive no benefit, no relief, while large businesses in small buildings receive relief.

(2) Reassessment may cause tax changes that graduated rates cannot address.

(3) Many businesses do not want to be subsidized by other businesses. I know that, if you haven't already, you will be hearing from the CFIB, which has a survey out to that effect.

(4) It fails to deal with the problem of cross-subsidization of residential by business.

(5) It provides municipal councils with a way out of dealing with the overtaxation of commercial property relative to the residential class.

(6) It could skew the construction marketplace towards small buildings, which will continue the ages-old history of hotels subsidizing other businesses, many of them much more profitable.

Obviously another major concern is the lack of a uniform definition of low income or disabled seniors for the purpose of providing mandatory tax relief.

Finally, given the accepted fact that most municipal politicians recognize, that residents vote and businesses don't, the concerns expressed here today are very real. They are not just theoretical concerns; they can and may very well occur. We ask that you make the required amendments to Bill 149 so that the intended benefits that property tax reform was to confer are not undone by municipalities or future governments.

The Chair: Thank you very much. We have about 25 minutes left. We'll go to the NDP caucus first, please.

Mr Pouliot: Welcome once again. Mr Seiling, always a renewed pleasure. You keep on top of the legislation. I certainly share the sentiment of the last sentence of your timely presentation. Bill 149 could be any bill. "So that the intended benefits" — whatever — "was to confer are not undone by municipalities or future governments." With our friends the Conservatives, don't we wish that some of our legislation could only be undone by ourselves and not by future governments of a different stripe.

Are you seeking protection against the municipalities when you're asking that classes be defined in the act itself?

Mr Seiling: I think I'm being very consistent, if you'll recall my presentation on Bill 106. First of all, I want to commend the government for having the courage to tackle this problem; it's one that governments of all stripes in the past refused to deal with or couldn't deal with for one reason or another.

Our concern is that municipalities and municipal politicians quickly recognize and understand that residents' concerns come first because they're the voters, and they need to be elected and then re-elected. So you already have an oversubsidization of the residential class by businesses, especially the commercial class.

We're concerned that municipalities, with the ability to create new subclasses just by asking the Minister of Finance, whoever he or she may be, in future years, not knowing what is going on in other aspects and the business dealings between the government of the day and that

municipality — we're concerned about what could get traded off or that what could be perceived as logical or reasonable may change over time.

We believe that if it's reasonable to assume there's a good reason to have a new subclass, then surely it should be done through a legislative process and an open hearing. We believe an amendment should come forth recognizing that, because no matter who the government of the day may be, it could put very undue pressure on the minister of the day to do some things that in the cold light of day may or may not meet the litmus test of a public policy process.

Mr Pouliot: So being, in your words, "big winners," we might be premature; it's not cause for celebration yet. It could be left at the perception stage. This devolution will cost money, there is no question. Municipalities will take on added new responsibilities. Any time there is change, it does cost money. They will be left or they will see themselves as being left perhaps, in your real world, with no other choice but to generate at least the same amount of money. Probably they will need more money. There will be a reassessment in the city of Toronto of major consequence. By assessment and reassessment alone, there will be some dislocation, some variance. It will vary greatly, but in some cases it will be consequential. The people in Forest Hill, the people in some of the better — I need your help. I live so far outside. What are the most —

Interjection: Rosedale.

Mr Pouliot: Thank you. Not Parkdale, but the opposite of Parkdale. They know that their taxes could possibly double. They haven't been assessed since the 1940s or 1952 or whatever, so they're going to get hit big time, and for them, when you say "revenue-neutral," they won't swallow it if you're getting a break and I'm not getting one. You're right, the municipalities might go after any opportunity to take the money out of your savings, there's no question about it.

Mr Seiling: Mr Pouliot, first of all, we believe it's long overdue and we are very supportive of the reassessment process. You raise the area of Forest Hill. The average house in Forest Hill pays a tax on that whole house which is less than the tax on one average hotel room in the city of Toronto, so it's not fair. Yes, there's going to be some relocation, but it has not been fair for the past 25 years that an industry has subsidized other people to the point that they were taxed into bankruptcy. There haven't been very many hotels in this city that have not had to undergo serious dislocation and relocation simply because the property tax system put them in the poorhouse. From that perspective, we are very supportive of the process.

All we're saying is that we don't want to see it undone by future governments just by the stroke of a pen, that if there are good public policy reasons that a new subclass should be created in the commercial sector, then surely it should be done through the legislative process as we're going through today, where everyone gets an opportunity to put forth their reasons, pro or against, and accept that. All we're asking for is to maintain the fairness and equity that Bill 106 is finally providing to our sector.

Mr Phillips: I agree with your point on dealing through legislation, not regulation. I don't know whether the public are aware of the consequences of what's happening, but we are approving laws for this government and future governments, and there's a companion piece of legislation going through right now, as you're familiar, called Bill 160, which will set property taxes on your buildings. Probably 54% of the property taxes on all of your hotels will be set by the minister, by regulation, and the minister has unfettered rights in that bill to vary it within a municipality by different rates, set different classes, set whatever rate he or she wants, all by minister's regulation. I think you've got your finger on a major issue. I regard it as unprecedented. I've never seen a cabinet that has given itself the authority to set $6 billion worth of taxes, never having to even get the approval of the Legislature — just sign a document.

1340

If you have not examined Bill 160, I urge you to get into it, because it puts into law the authority not for the municipalities but for the minister to do this, so this minister or any future minister could say, "We've decided hotels around the province should be in a different class, and we will set the tax rate on education ourselves on that." I know a lot of the business community may say, "It's Mike, and Mike wouldn't do that to us," but Mike won't be around forever, and you never know. Governments come and governments go, as we all know.

I appreciate your first recommendation. By the way, I'm actually amazed at the Conservative caucus agreeing to the bill, because it is governing not by the public but by the cabinet.

Mr Pouliot: That suits them fine.

Mr Phillips: When you're in government, you may like it.

I agree with that point. I think you make a good point on the graduated commercial tax rate. You say it singles out small buildings, not small businesses, and my own judgement is we're going to see a bonanza for lawyers, because they will find ways of subdividing properties that had never been imagined before. We'll see more condominiums in the First Canadian Place than you can imagine. I think you've got your finger on a second major problem. The third one I'm not as clear about, uniform definition of "low income" for seniors. So I appreciate your first point, and we are trying to get the government to move to putting more of this in legislation and less in regulation.

Can you just help me along a little bit with your concern about the lack of uniform definition of "low income" or "disabled"?

Mr Seiling: It's my understanding that the bill makes provision for mandatory payments, and without some uniform guidelines as to what that should be, those can vary substantially. As we have seen, for example, here in Toronto, which will disappear come January 1, if you look at what the city of Toronto might pay versus what the city of Scarborough or the city of Etobicoke might pay, you get some wide disparity, so again, we think there needs to be some uniform guidelines as to what they should be and

who should qualify for them. Obviously you need more to live in certain areas of the province than you do in others, but there should be some guidelines as to what those qualifications are so you don't get dislocation of people going from one area to another because the benefits are better and it pays better to live in a certain area.

Mr Grimmett: Welcome, Rod, to the committee. Thank you for your presentation. I'll deal first with the low-income and disabled thing. Bill 149, as I understand it, extends the requirement in Bill 106 that municipalities establish some form of program for low-income or disabled seniors should they be affected by shifts. That's the purpose of that policy. You indicated that it required payments, but you must have misspoken, because it's not payments; it's a program to provide a deferral or some other kind of relief.

Mr Seiling: I apologize. In my view, if you defer something, it's a payment. In a strict accounting sense, it's a debit to somebody's books, and that's our point with it.

Mr Grimmett: Fair enough.

Mr Seiling: All we're saying is that we believe there should be some establishment of guidelines as to who qualifies and who doesn't. It could become a very contentious issue somewhere along the line as to who is in and who is out — because they are payments. I hear what you're saying, but somebody is receiving something. Although it's a credit to them, it's a payment to someone else.

Mr Grimmett: Our theory is that we are telling municipalities they must set up some kind of program, but it's up to them to tailor those programs as they see fit in their community, rather than perhaps imposing a Toronto model on everyone in the province. I couldn't help thinking when you were talking about the business and commercial class being concerned about the residential class underpaying that in some parts of the province, like the part that I come from, the opposite is in fact true, that the residential taxpayer to some extent subsidizes the industrial and commercial taxpayer. So it isn't just one model necessarily, and that's part of the problem in trying to address assessment problems. Parts of the province differ from others. What we're trying to do here is establish a system of fairness that's province-wide, but it certainly has its challenges.

Mr Seiling: As I've said, and I'll say again, we congratulate the government for tackling the problem. It's massive. All we're cautioning is that you don't, in the process of fixing it, sow the seeds for future governments to undo it without some checks and balances in place, and our concern is very much that with this ministerial consent only, these things that have been worked on very hard to correct, left to the municipality whim of the day, could come undone very quickly.

I'll use a perfect case as an example: the hotel issue here in Toronto, where hotels are literally taxed into bankruptcy. Everyone recognized the problem, but 25 years later it still wasn't fixed until Bill 106 was passed. The corrections start. Now, because of the phase-ins, we don't know what the variable tax rates will be, what comes out we won't know for a while, but at least there is a process in place. We weren't extremely happy about it, but at least there was a process in place that various governments didn't want to take the legislative route to do. At least there was a process. Of course, there are others who would have said: "Leave it the way it is, because the hotels are subsidizing others commercially and residentially."

We don't want to see that undone, wake up one morning and find out that the local council has decided to approach the Minister of Finance to have a special class. I think where it becomes very scary, and we can all theorize about Toronto, but take this to a smaller community where, for whatever reason, the local council doesn't like a businessperson who's carrying on a business, and all of a sudden that person wakes up and finds that his business happens to be the only business in town that is now in a new subclass of property. Now they're in big trouble. It's not a Toronto issue per se, although it's a very real concern here; it's one that extends right through to small, rural Ontario.

1350

Mr Grimmett: I understand, and I think it is a valid concern that anyone would have when they're trying to address reform of the assessment system, but I can assure you that our government doesn't want to see this legislation leading to either bonusing or the targeting of special businesses. The minister has indicated that he has retained the power, through regulation, to prevent that from happening if the legislation, if it's passed, is abused.

But the legislation currently contains a number of checks and balances such as tax ratio restrictions and also the range of fairness, which are going to be addressed by municipalities in designing how they set up their commercial and industrial classes of assessment. We have heard your concerns from other groups though.

Mr Seiling: I appreciate that, but all I'm saying, and I'll say it again, is my concern isn't for the current Minister of Finance of the day; my concern is future ministers of finance, what may or may not be going on at the time. All we're saying is we believe it puts undue pressure and could put the minister of the day, he or she, in a particularly problematic position, not knowing what else is going on in the province at the time.

We all know there are tradeoffs every day, so who gets traded off for what? All we're saying is that if it's good public policy to create a subclass, then surely it shouldn't be a problem doing it through the legislative route. If it makes eminent sense to do it, then surely there should not be a problem in doing it through the legislative route.

Mr Pouliot: Maybe it should be in the Constitution.

The Chair: Thank you very much, Mr Seiling, for coming today. We appreciated your interesting presentation.

CITY OF BRAMPTON

The Chair: Would Mayor Peter Robertson, from the city of Brampton, please come forward. Welcome, Mayor

Robertson. Thank you for joining us today. You have half an hour to use as you wish. If you leave time for questions, I'll divide it equally among the three caucuses. Identify yourself officially for the record please, and then go ahead.

Mr Peter Robertson: My name is Peter Robertson, presently the mayor of the city of Brampton, just on the outskirts of the GTA. I'll try to start with a little relaxation, mainly for myself.

I went to the bank today with a $20 American bill, because my wife left town and I don't have any money. I hadn't got to the bank yet, and I had to pay my parking. In anticipation of paying it in Canadian, I put the $20 bill on the table for the teller and said, "Could I have Canadian money?" She said: "Yes, sir. There will be a $2.50 charge for this service." I was caught off guard a little bit, and I said: "Could I have my $20 back? Thanks for the insult. I'll try to find another way of getting this exchanged." I say that because banks, with all the charges they are putting on people, are overstepping what I think is good practice. I don't know if you feel that way or not.

In 1972 I bought some property and built a home out in the country, and it was zoned for estate residential. That was 27 years ago. In approximately the same year — I don't know that, but it's approximate — Bramalea Consolidated zoned some land very close to us, on Airport Road, for industrial land, as well as homes, some 27 years ago. It has taken at least that time to sell out the industrial subdivision, and where I live, we're not going to see homes for at least another 10 years. The water and sewers aren't going to get to that area. I wanted to start off just saying that it takes a long time to develop some lands even from the point of having a subdivision. Whether it's my home or a developer's home, that's the process.

I'll start in with the script as I prepared it. I don't have staff with me. The treasurer of the city helped me prepare the chart that I'm going to share with you. I've checked it over with an assessment consultant, so what I'm going to say is correct to the best of my knowledge.

I am astounded that the Conservative government, which has the great respect of the business sector, is moving ahead on assessment reform that fundamentally alters incentive. If a Conservative government does not know the fundamentals of incentive, then what government would?

The well-meaning bureaucrats in finance who have designed and written Bill 149 must be challenged. They are living in an ivory tower. I'm sure what's before you is their best effort, but when the rubber hits the road — I've been a politician in Peel for 20 years — it just doesn't translate.

To sell a pair of shoes, you must have an inventory of shapes and sizes available for sale. If someone walks into your shoe store and you don't have the size available, you can bet the customer will walk out of the store. More fundamental than that is, if they walk into your store and you don't have any shoes at all, they'll walk out of your store without a sale. The last principle is price. If you have the shoes and the sizes and the price is guaranteed to go up every year, pretty soon the people won't be coming to your store because you have priced yourself out of the market.

Please let me illustrate that simple idea in terms of this assessment. On the average in the city of Brampton, the industrial developers sold 30 to 50 acres per year over the last 10 years. This year we sold 300 acres. Our inventory of zoned and fully serviced land is running low. We do not have a good inventory of shoes, or industrial land, for sale in Brampton today, but we're trying to do something about it with our new official plan. This is why I'm here today to talk about incentive that's implied in your proposed Bill 149. I think it's tinkering with disaster.

Your new act, as I understand it, talks about "farm land awaiting development." The following chart outlines what my city treasurer says will happen in Brampton with the new Bill 149. You'll be interested to compare it to the UDI figures which you received apparently yesterday. Our calculations are that UDI has seriously underrepresented the facts. Turn to the chart for a minute. It would read like this. Presently a farm is going to be taxed at about $46 in Brampton. We'll skip the next line for a minute. If it's industrial land that's zoned, like the Bramalea lands, and they're farming it, our council will be able to determine a reduction factor of 25% to 50%. You can see that what Bramalea Ltd would be paying $76 for is now going to be somewhere in excess of or on the average of $4,000 or $5,000. If that land is registered, and it is, and there is a farm use on it, the council has a little more discretion, in that we could reduce their costs 25% or even extend a one-third to two-third reduction. But it's still going to be a significant increase and carrying charge.

1400

The last line in the "Industrial" sector shows that we're going to get a major increase in income, which we are looking forward to, when a building permit comes on. That's the day when we all should celebrate, because it means new jobs in Ontario, new building construction under way in Brampton and a good revenue stream for the city.

Without repeating the chart, you can see that the same thing is going to happen with commercial. We have some proposed plazas. These are all based on one acre. There's a small proposed plaza, a zoned-for plaza, on Torbram just north of Bovaird. No one really knows when that's going to come on stream. There's a 50- or 60-acre commercial site at the corner of 410 and Bovaird. These things are real. They stay in development until the market is ready.

What I'm trying to present on page 3 is going to be a nightmare in changing the economics of the development of land in my city. Already our assessment department is fighting with land owners trying to prove that it is the zoning on the land that triggers assessed value and denying that the actual use of the land, that being land that is farmed, is the basis of actual value.

I came before this committee previously, and Hansard has a copy of a case I brought before you, the Wilson property. For four years in succession the assessment department took them to the Assessment Review Board.

Four times they won. Four times they were taken to the Ontario Municipal Board. Four times they won at the Ontario Municipal Board. This year they took them back to the OMB again. Five years in a row these people have tried to show and have shown conclusively to two different panels that their land was farmed.

The assessment department in Peel is saying that it doesn't matter if it's being farmed; the issue is, have you got a plan of subdivision in process, have you got a plan of subdivision registered or have you got a plan of subdivision and started construction? What is going on with some people in our community is clearly harassment. The example of going to the bank teller this morning is just a little measure of the kind of frustration that person feels when they're taken to court by government for four successive years and they win four times and to defend themselves the lawyer's bill is somewhere around $200,000. This government is sitting there, letting it happen. I've reported it to you. It's in Hansard, it's in your hands, and no one is doing anything about it.

Even when assessment appeals are won at the Assessment Review Board, our assessment department takes the issue to the OMB. Apparently this argument will continue with the new legislation. Now you can see how the new act will escalate the price of industrial and commercial land so that land prices must double each 10 years, just by taxes. Every 10 years, the value of industrial land for sale in Brampton is going to double. If the land was purchased on borrowed money, the land values are going to double every eight years. So, automatically the price of land in Ontario, not just Brampton, is going to be compounding the actual value of land with this bank and government regulation. With this assessment escalation of land waiting for development, Ontario will soon become uncompetitive with the United States and, of course, globally.

I just had a meeting with a gentleman who is in business in Brampton. He imports a lot of tulip bulbs from Holland. His job is to package them and then put them out in the retailers' stores. He recently had to sharpen his pencil to keep the business in Canada, because they had an American offer to do the same thing. This government doesn't need to be told how competitive it is and how land prices are part of the equation.

This government must not artificially inflate industrial/commercial land values by this taxation tinkering. This government must leave the incentive to have land ready to go for the entrepreneurial and manufacturing sector. I think you are aware of what's going to happen if this tax goes on. The developers will not have 300 or 400 acres ready to go in Brampton; they'll wait till there's a sale, and then they'll bring forward their application, and it might take six months to get the rezoning. This government must make an investment for the future and trigger taxation on building permits.

My first recommendation is that no matter who is farming the land, as long as it is being farmed it should be at the farm rate.

Recommendation 2: Amend the Planning Act to allow agriculture to be an interim zoning on and use of lands awaiting development.

Recommendation 3: The Urban Development Institute requested an amendment to the Planning Act to prevent municipalities from prohibiting the growth of agricultural crops on farm lands awaiting development. I would concur with that.

In the city of Brampton, we have a resolution of council to create a bylaw that recognizes farming as an interim use of lands zoned industrial, commercial and, in some special cases, residential. We believe it is good stewardship to farm the land and keep it productive while it is awaiting development, because it could and does take 10 to 20 or more years, as I've illustrated, in many cases to plan and hold lands ready for development. The city of Mississauga has taken the city of Brampton to the Ontario Municipal Board to delay and discourage us from implementing this principle. This is a good example of why the government should amend the Planning Act to prevent municipalities from prohibiting the growth of agricultural crops on farm lands awaiting development. At least allow the cities which wish to have dual zoning on lands awaiting development to do so; it should be deemed frivolous to object if a neighbouring municipality wishes to do so.

Payment in lieu of taxes, recommendation 4: It is critical that the province clarify a fair and equitable approach to revenue sharing of PILs, payment in lieu of taxes. While the region of Peel is responsible for maintaining and expanding the local road network to Lester Pearson airport, because Airport Road is a regional road, and the Peel police are responsible for policing the airport, they get no share of the approximately $11 million annually that is passed through to the local municipality. Legislation must require such payments to be shared with school boards and upper-tier municipalities. I'd love to be a municipality that gets a $11-million grant and doesn't have to share it with the region or the school board.

Recommendation 5: Preserve woodlots across Ontario, particularly on agricultural lands awaiting development. The text of Bill 149 on managed forests has the potential of protecting trees if they are on large tracts or tree farms and registered in the Ministry of Natural Resources program. However, smaller woodlots on lands awaiting development are encouraged to be cut down in order to qualify, through the Assessment Act, to be under cultivation and part of an agricultural use.

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This is happening every day in the city of Brampton. When an assessment appeal goes in and the assessment department says, "This woodlot is not a crop, it's not farm land; you're going to be taxed higher for that little bush of trees," what do you think is the natural outcome? Take the trees down, get it in crop and try to get your taxes down to the agricultural use. It happens in the city of Brampton. On an 80-acre farm in west Brampton, owned by Jay Polon, the reassessment department singled out his woodlot for higher taxation. This is becoming standard practice,

as I have said. As a result, they are encouraging land owners to cut the trees and to farm.

Last of all, conservation lands: It is the growing practice in Peel to assess valley land at higher values than prime farm land, at about four times the value of prime farm land. In terms of market value or actual value assessment, this makes no sense as these lands are to be deeded free to the municipality or conservation authority at the time of the subdivision. As you know, from rim of valley to rim of valley goes free to the municipality or conservation authority, and yet the people who have that land are being taxed at the present time four times the value of agricultural land. Surely the assessment department shouldn't have the power to sever your land and say, "This part of your land is a bush lot and this part of the land is valley land, and each of those things gets three different kinds of assessments." Surely a farm is a farm.

Recommendation 6: Bill 149 or its regulations must address such inequities and clarify that valley lands are exempt if they are conservation lands or assessed at the farm rate like all the rest of the agricultural unit.

Cumulative cost of taxes on school sites: School sites awaiting development escalate in cost by the assessment process. Typically, lands designated as school sites are not purchased by the school boards right away. In fact, they wait five to seven years, until the community is built up. Then and only then do they consider if it will be taken as a school site. At that time, the school board presumably pays market value for the site. The money they use, obviously, comes from the taxpayer.

Why do the assessment and taxes on a school site accumulate for five to 10 years, only to have the school board pay more money for the land? This isn't a complete presentation but only one suggestion. Why wouldn't school sites be deemed as city parkland as the community is developing and forgiven their taxes because it's on the municipal side of things? Then when it's time to build the school at least the land values would have been preserved at the lower rate. The savings could be savings to the taxpayers of Ontario through lower land costs for school sites.

I would like to have put in a paragraph on farm tax rebate; if I was the mayor of Caledon, I likely would have. I don't know what's going to happen with farm tax rebate. If it happens that the new reassessment will give a municipality more money and they can easily pay for the farm tax rebate, then the government can rest easy. But if the reassessment doesn't change the revenue stream for your residential taxes and it's an add-on and each municipality has to come up with some money to pay for the farm tax rebate, you'll find another major bone of contention that I could have speculated on. But because I don't have that information and only the provincial revenue and finance department has that information, I hesitate to venture in. But maybe you members who are close to the Ministry of Finance could find that out for yourselves, particularly if you have a community that has some farms in it.

In conclusion, I'll go back to the major point I came for, but I think all the other points are valid. The first principle is that farm land awaiting development was assessed, valued and taxed as a farming unit until the farming activity ceased or until building on the land commenced. In areas where lands are zoned and held in an inventory awaiting development, this historical practice in Ontario should continue.

In order for the GTA, indeed all of Ontario, to remain competitive, both industrial and commercial sectors must have the incentive to zone and get their lands ready for market. All municipalities in Ontario should be prepared to wait to derive their significant tax revenues from the actual construction of new buildings and the jobs that come out of it. The trigger for escalating the assessment and taxes should be the building-permit stage. Thank you for listening to me.

The Chair: Thank you very much, Mayor Robertson. We have approximately 11 minutes left. I will go to Mr Phillips of the Liberal Party first.

Mr Phillips: Thank you for a good presentation, Mr Mayor. What is the motive behind the government here? Yesterday the Urban Development Institute was in, and literally dozens of mayors have written indicating their lack of support for what's proposed in the bill. What's your understanding of why the government wants to proceed with this?

Mr Robertson: I'm not a soothsayer, and I don't know, but I can tell you what I think. I think the government is definitely well meaning. I know the government's plan is to try to create jobs and stimulate the economy. But they've inherited a very large bureaucracy, and up until now they have been letting that bureaucracy tell them what the blueprint should be, what the rollout should be for all the different bills.

The finance department had the great idea of pooling the 905 taxes. That didn't come from any particular politician that I know of. It's a hatched-in-house idea. In theory, it might sound good, but when you get out on the hustings and you say, "Does this make sense? Do we want to double the price of land simply because of a taxation change?" hopefully your party, the Conservative Party and the NDP will say, "Look, no matter what our party is, this isn't good for Ontario."

Let's admit at this time that some advice we got isn't right, listen to UDI, the guys who are trying to make this society turn around, and listen to a few mayors instead of listening to the bureaucrats at Queen's Park. Just give us a chance.

Mr Phillips: I think you made a good point, in fact an excellent point. We talked yesterday about the fact that future jobs will depend on businesses being prepared to invest capital investment for plants. Certainly our auto sector, which is a big part of your economy, has invested heavily in Ontario in plants. You need the land to do that. I think we do have to listen carefully to the concerns you're raising as we look down the road. Every business now has the choice of locating here, Kentucky, California or Michigan. So I hope the government is listening to your concerns.

Mr Robertson: I do too, Gerry. Can I just talk about the Bramalea assembly plant, the Chrysler plant? It's a three-million-square-foot building, with 3,000 workers there. Around that land — it's called Bramalea II Business Park — there were 500 acres of farm land, zoned and registered as industrial land. If Bramalea could have sold it at the time, they would have, and they wouldn't have gone bankrupt. Those 500 acres sat there, and they eventually sold, one after the other, to businesses that are now coming to my city.

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Can you imagine what would have happened if this legislation was in place? That land would have doubled, doubled, doubled. Then, when someone said, "I want to move beside the Chrysler plant," they would have looked at the price of the land and instead of saying, "Oh, I can pick up this land for $120,000 an acre" or $150,000 an acre, that price would have been out of sight, and we wouldn't be able to proudly sit here today and say that those 500 acres have all sold. They're not all built on, but thank the Lord that they are all sold. The land immediately south of the Chrysler plant is under construction with a one-million-square-foot building. Nabisco Brands are going to have a warehouse there. Their plan is to build another 200 million square feet. It's unbelievable. But if we don't let that incentive stay in Ontario, we're going to strangle ourselves.

Mr Grimmett: This is sort of a continuation of a discussion we've had with a couple of other presenters. We heard from the Urban Development Institute yesterday, and this morning I had an interesting exchange with Mr King from the Orlando Corp along very similar lines. I don't want to continue that, because I think I got my answer when I suggested that there was logic in this. There is logic in it. But the argument you and the other people have made is that the theory of value isn't the same as the practice of developing land.

Mr Robertson: Exactly.

Mr Grimmett: So I understand your argument. When we heard from the Association of Municipalities of Ontario, this issue was not raised. Is that because there is a difference among municipalities?

Mr Robertson: I don't think so. I think at the municipal level we're so bombarded by change that we can hardly sleep at night for trying to read and keep up to date. This paper was written last night between about 8 o'clock and 11 o'clock. It was proofread by my treasurer today, and it was delivered to me at 12 o'clock at the board of trade. We're running like hell just trying to understand what you guys are doing and why you're doing it so fast and why we're going to be asked to pay for the services of Metropolitan Toronto when we have one half of the employees. We've got one half of the employees of Metropolitan Toronto. We are lean. We're competitive. We're being bludgeoned. You're saying, "Oh, it's okay, you pay for those suckers and don't worry if they ever become efficient."

Mr Grimmett: Do you know what AMO's position is on this issue?

Mr Robertson: No, I don't.

Mr Grimmett: Can I ask you whether you have any suggestions on how the fair sharing of payments in lieu could be structured.

Mr Robertson: I'm not an expert, but I think we should just say that they should be distributed within a region so that the school board and the region share in it like any other revenue stream. Why should someone, by luck, have an international airport in their midst and for years get a gift of $11 million a year? I could tell everybody in the world that we're debt-free. Couldn't you if you got a gift of $11 million a year? In fact, you could give every taxpayer a deduction of 3% every year with that money, if you wanted to, instead of socking it in the bank.

Mr Pouliot: Welcome, Mr Robertson. You started your remarks anecdotally by mentioning — and yours is a sad story this morning — that your wife is out of town and you were left without any money.

Mr Robertson: I had a $20 bill.

Mr Pouliot: You had $20. My wife is in town, she flew in, and I am left without any money, your worship.

Mr Robertson: Can I lend you some?

Mr Pouliot: But it's not her fault. I look in the mirror. I'll take that back, because I do more than my share of spending; she's much more qualified to handle money than I am. But I remember the days when $20 was an immense sum. Then I bought Bre-X, but I won't bore you with that.

Your worship, from what you know now, will municipal taxes — residential, commercial and industrial — in Brampton, by virtue of the downloading, go up in 1998?

Mr Robertson: We don't know. Here's what we do know: We know, from the figures the province has sent us, that the average residential tax will go up $276. But Mr Harris said, "Don't worry; they won't." If we take his promise literally, he's going to hand us a cheque. It's going to be a new municipal transition or municipal subsidy grant. We thought we were getting out of the grant business. We have weaned ourselves off of $11.5 million of grants, including transportation grants that you used to send us. We're out of that business now. We're delighted to say that at last we're self-sufficient. Then what happens? We're being told, "Oh, no, you've got to pay for Metro and their inefficiencies, but we're going to give you" — or is he going to give us a grant? Is it going to be a transitional grant? Is this grant going to be squeezed out in three years so that the tax bill next year won't be $270 more, it will only be three years from now; the year 2000 is when the penny drops. We don't know. I'm the mayor of a community of almost 300,000, and I don't know.

Mr Pouliot: I'm a little confused, because I heard the Premier promise a 5% to 10% cut in taxes from here until the year 2000; if you were to get leaner, if you were to organize your boutique, you should be able to pass along a 5% to 10% tax decrease to the citizens you represent. I guess it's better said by others when it comes to you.

I want to go back and focus on your presentation. You're telling us, from what you know, your worship, that taxes should go up in one year by $276.

Mr Robertson: Yes, sir, on average.

Mr Pouliot: Yet, in the same vein, you are willing to forgo revenue because you see fairness in your proposal and you also see the bigger picture.

Mr Robertson: I hope so.

Mr Pouliot: I think this is an act of courage, and I say this by way of observation.

The Chair: Could you wrap up, please.

Mr Pouliot: Yes. Yesterday, the day before, it's becoming a caravan of solicitors. We have developers — it's expected and why not? They put their best foot forward. But more and more, except for one, we have people like you, who are standing up and saying that what is being done here is wrong, it doesn't serve the purpose, it deters revenue; wait for the building permit. I haven't heard any contrary argument to say, "Keep on being a farm." Of course, you're not a farm if you're a condominium, but it's at that stage only. I welcome your presentation very much, and I agree with you.

The Chair: Mayor Robertson, thank you very much for coming today and thank you for your excellent presentation.

Mr Robertson: I hope I am heard. I won't give up on this issue or the next issue. Somebody has got to listen sooner or later.

The Chair: There will be a recess until 3 pm.

The committee recessed from 1430 to 1505.

CONFEDERATION OF RESIDENT AND RATEPAYER ASSOCIATIONS

The Chair: We continue with our public hearings. Appearing before us now is David Vallance representing the Confederation of Resident and Ratepayer Associations. You have half an hour to use as you wish. If you would like to leave time for questions, I will divide the time evenly between the caucuses. Identify yourself for the record please, and then start.

Mr David Vallance: My name is David Vallance. I am chair of the Confederation of Resident Taxpayer and Ratepayer Associations, which is the group I guess I'm appearing for today. When I first heard about this, I was going to pass it up because I thought it wasn't relevant. But then, on reflection, going back to 1991 when market value assessment was the big issue in Toronto, I was in this Legislature on several occasions to make a presentation myself and to listen to others. At that time I made a presentation that got the longest time before the committee except for the railways. I was here for the presentation that the railways made, and I was appalled at what the tax system was going to do to them. I suspect, although I can't ever find out for sure, that it was the railways that stopped market value assessment from being imposed on Metro at that time, a reassessment and a market value update. For that I am grateful, because I was intimately involved with a business organization, and I know that most businesses would have been put out business in a few months.

What I find interesting about the result of all that is that I must congratulate this government, which is something I haven't done very often in the last year, for the approach it has taken to the treatment of pipelines and railways. The proposal, as I understand it — I haven't read it in detail; I've only looked it over in glances — and from what I've heard from other people, what you're using is essentially a unit assessment system, which was my preferred assessment system for all property in 1991.

Railways and pipelines receive nothing of service or benefit to the municipality. They cost them very little, except to the extent that they interrupt the transportation systems and there's a cost to building around those services, and it made no sense to me that they should be taxed at the same rate as the property adjoining them, so to that extent, I think the government has made a wise decision in taxing them on the amount of land they're actually using and assessing a value or a cost for that privilege.

That leads me to another point, and that point really is why, if this is so good for the railways, could it not apply to other properties? The problem right now with the assessment system is the same as the problem then, and the problem for the railways then was that the assessment system was setting a tax policy for the railways. That's the wrong way to go about it. The government has taken that over and said, "We're going to let you assess the property based on the amount of area you cover, and we're going to set a tax policy for that area."

I suggest to you that's the way you should deal with the properties within any municipality or county in Ontario. You provide an assessment number, and I suggest that value is a totally wrong thing because it's constantly fluctuating, it's constantly shifting, and that constant fluctuation and constant shifting creates enormous turmoil for the people involved, just as it did for the railways in 1991. I don't understand why it's so difficult to understand that. If you gave the municipalities the power and the right to design a tax system based around the size and the area of the lands and buildings occupying the properties within the municipality and then let them come up with a system for taxing those properties so that they could generate enough revenue to pay the costs of operating the municipality, I think you would come up with a far better result in the long run. This has happened in Israel where a unit assessment system is in place and the municipalities are required to come up with a taxing system based on the area of the property and the building on that property. Apparently it works very well, and they're looking for a long, stable system.

Why should you do this? Market value assessment is practically universally hated. Some 30% of the United States has come off regular market value updates for their property assessment. California, Oregon, Idaho and a couple others — I can't remember them — 30% of the total population in the United States has voted by referenda or ballot on a proposition, as in proposition 13 in California, to come off regularly updated market value assessments. If the province would move in that direction, you would save yourselves a whole lot of headaches, because I don't know if you understand it or not, but the assessment office is saying you're going to be facing

900,000 appeals after the assessment hits the books next year. I have heard that number from two different sources, both of them intimately acquainted with the assessment department.

If you're looking at 900,000 appeals, all this is is a bonanza for the lawyers and the appeal firms, and that's a very unproductive use of our resources. All the businesses and all the people involved in those appeals are going to be sidetracked from their regular daily business. The cost is well beyond the actual cost of the appeal. The loss of business revenue, the loss of time, the loss of energy and the disruption to businesses are probably going to cost the economy a few points, and that's a very sad way to go.

Since the government has seen fit to change the system for the railways in the right direction, would it be prepared to consider at least giving the municipalities an option to design a tax system for themselves in different cities? Cities attract people for a number of reasons, employment opportunities and by virtue of where they are born, but another thing is the style of life, the quality of life and so on, and it's those differences between cities that make them attractive. They also create all sorts of different opportunities for creative ways to develop things, to raise money, to create land use, and this is part and parcel of the municipality's operation. I'm just suggesting that you should allow the municipality the right to design a tax system that works in their municipality, that is not in constant fluctuation, and I think that is about all I have to remark on.

The Chair: We have approximately 23 minutes left, and I will begin with the government caucus.

Mr Grimmett: Thank you, Mr Vallance, for your presentation. You advocate that a municipality could be told by the province, "Go ahead and set your own assessment system"?

Mr Vallance: No. I'm suggesting that the assessment could be done by the province, but the numbers be given to the municipality to set a tax system that works in that municipality. There are different ways of doing that, and we can go into some of those ways if you'd like. There is all sorts of creativity out there, and different municipalities have done different things with user fees, for example. Up where I have a cottage, there's a user fee of $45 for my garbage — that's not a user fee; that's just a flat tax. By using flat taxes, you can stabilize some of the fluctuations inherent in the market value system, particularly a regularly updated system.

Ontario doesn't have a regularly updated system in most of the province. I think 60% of the province hasn't had a market value reassessment since 1960 — it may be on market value, but it's not on a regular update. There are 16 years of changes to be incorporated in the assessment that's being done as of last August, and that's going to create tremendous pain and turmoil for a lot of people.

Mr Grimmett: Having practised law in a small town and taken a number of market value appeals myself, you are certainly identifying some of the practical problems that exist for the market value system, but we as a government have made the decision to proceed with a unified system throughout the province in order to try to attain equity, so that a taxpayer or a business or a resident will know that they are going to be subject to the same rules whether they are in Kenora or eastern Ontario. That is in keeping with the theory that we don't want municipalities tailoring their assessment systems or their tax systems to attract investment or to punish businesses. I think I would have some of those concerns with your suggestion that there could be this patchwork tax system in each municipality. Don't you see some problems with that suggestion?

Mr Vallance: Not really; in fact, quite the opposite. Russia had a unified system. Everything was done from the central command, and look what happened. I think the same thing is possible here. You cannot tell me from Kenora how the property tax system should work in Toronto. Kenora doesn't have the same density, it doesn't have the same mass of population and it doesn't have the same infrastructure to support and maintain, so the tax system that works in Kenora may not necessarily work in Toronto.

Also, when you say it's a unified tax system, and I think this is where your problem will be, downtowns all across Ontario, not just in Toronto, in Stratford, in Barrie, in London, in Simcoe, tend to have a higher value than the properties at the edge of the city — that's almost universal — and yet those downtowns are the most efficient part of the municipality. They're being penalized for their efficiency to support the inefficient extremities of the municipality, and that's creating the urban sprawl that is costing us a fortune. When I say that, I do it having just read a report that came from California, where the Bank of America said that urban sprawl in California is probably hurting the economy in California by two or three points. That's from the Bank of America. So that sprawl is recognized, and the market value assessment system just encourages that by penalizing the central core to the benefit of the extremities. That's the problem with the unified system, as you call it. It's not unified at all. You're basing it not on the costs of the property to the municipality; you're basing it on something that is fluctuating constantly.

North Bay, which is Mr Harris's home town, I'm told is just dying to get a reassessment, and you know why? Because in 1980 when it was reassessed, all the downtown properties were hit with high values, so they created a whole lot of strip malls. Those strip malls are now facing dramatic increases in their assessments, and their taxes are going to double and triple, and downtown is going to go down. Is that some way to run a municipality? That's central planning. Let the municipality cope with those problems; don't try and do it from Toronto. God, I wouldn't want to be designing a tax system for North Bay with strip malls a mile and a half from the downtown. I live downtown. I like the downtown. I want to maintain it, and I don't want to subsidize something that is expensive to maintain and operate from the centre.

Mr Pouliot: A real pleasure, Mr Vallance. With respect, I'm wrong so often, but philosophically I maybe agree to disagree. I'm constantly torn between what con-

stitutes the responsibility of relative wealth vis-à-vis society. On the one hand, I favour a broader assessment by way of a sales tax or by way of the dreadful, much maligned GST, where you exchange directly at the marketplace. On the other hand, our society judges wealth by shelter, and in the extreme, I wonder if Bill Gates, if there is such a thing as property tax, should pay more taxes than Ms Jones with Fluffy the cat who occupies a partly subsidized apartment. They're both home, but one's wealth is being recognized by way of a contribution to society.

The railroads: It is my understanding that the rights of way will be designated, will be spread over nine regions, and a fee per acre will be not only suggested but put forth by the government. But once you move from non-rights-of-way, properties owned by the railways will continue to be assessed in their current manner; only assessment might change. They're happy with the rights of way, although they are speculating they don't know what the price per acre will be. But they seem to be, grosso modo, tacitly in favour, in anticipation.

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Some of us have only been here 13 years, but I can assure you that I can count and welcome the opportunity to meet with CN and CP. When I was at transportation, and later at northern development and mines, those opportunities multiplied themselves. They are very good lobbyists. It can never be said that lobbying, with the railroad companies in this country, is a vulgar trade. They have elevated from a trade to the most honourable of professions.

The fact is, when all is said and done, they don't pay very much tax, thank you; they really don't. Historically they were given huge tracts of land. Those entities were protected. They became cartels and monopolies by virtue of federal statute, first east-west, and then they availed themselves of every trick in the book, and rightly so, to go from east-west to north-south, and today they compete with themselves.

At one time, CPR had enough cash flow to establish the largest truck company in Canada, and they would come to the table and say: "We can't compete with trucking. They now have door-to-door delivery, just-in-time delivery. What are we to do?" CNR knows Delaware better than you and I, Mr Vallance, will ever have a chance to, because it invested. They move goods to market, and they have done very well, and we want to wish them well. They still have the inside track when it comes to shortline operators. They don't like unions because they restrict their ability to unload what is no longer profitable to piecemeal to shortlines because of successor rights, so they threaten to abandon. If they don't think it's as lucrative, they'll even remove the track so they won't have to pay. So I have admiration, but as a politician, little sympathy for the overall scheme of the railroads. They have done very well. I want to wish them well, but they don't do very well at pleading the poverty game.

Every third presenter is unique. Every presenter stresses fairness. The thing is, unless we can come up with a better mousetrap, it is very difficult for the province to give the municipality the tools and yet to dictate what brand they will use. Property assessment might not be the best way of arriving at for the purpose of, but unless we come up with something else, it has worked relatively well. If you haven't been assessed for 40 years and you live in Forest Hill and you send three widows as presenters and they say they will be impacted, that they cannot maintain the house, I don't have the ability to come with six widows from a lesser tenement who have been subsidizing. Is this fairness? I don't know what is, but I suspect unless we come up with a way to address all that, and keeping in mind that we need the revenue, maybe the system as is is not perfect, we know that, is better than anything else that is being put forth.

How are you doing, David? Downtown Toronto: Would you be able to survive?

Mr Vallance: My turn?

Mr Pouliot: Yes.

Mr Vallance: There are a number of issues here. One is your argument about the railways. Whether they got the grants in the past or not is quite irrelevant to the taxes they should be paying for the rights of way. The taxes, as I understand it, are to be collected for municipal or school uses, which is what everybody else living in the municipality is for. Is that not so? If that's the case, then I'm only referring to that.

If you're upset about the grants that CN and CP got 50 or 100 years ago, that's a separate issue from this. As far as the rest of their properties, presumably the rest of their properties in some way are receiving a service or a benefit apart from just passing through the city, and they should probably be taxed in a different way.

My point really was that regardless of how you tax the railways, what upset them in 1991 was the fact that they were moving from something that they had been dealing with for umpteen years to a brand-new system. If we had, every year, to deal with an income tax system that changed the scales, changed the rates of tax, changed the exemptions, changed everything in the whole system on a pretty arbitrary basis, we'd go nuts, and that's the problem with the property tax system for everybody, including the railways, at this point. That's why 30% of the US has moved off regular updates for their market value, not because people don't want to pay their fair share of property taxes, not because they're paying too much property tax in many cases. In fact, I think it was in Oregon the vote was, "Would you like to go with an acquisition value tax, which means if you buy a new property, you will pay tax based on that value?" They said: "No. The gains from that are not worth the chance that in a few years we'll be in another position." What we're looking for is stability, and that's really what we're talking about here.

As far as fairness is concerned, the example of Bill Gates and the widows is quite irrelevant. Let's talk about the house in Rosedale and the house in Parkdale.

Mr Phillips: You raise a very interesting point in that the bill says the fair assessment system bases the assessment of all properties in Ontario on current values, but as you have quite rightly pointed out, for Hydro and for rail

rights of way and for other utility rights of way, it has nothing to do with the value of the land, zero. The government is simply going to say, "We're going to set how much these organizations are going to pay in property taxes, and we're going to allocate it on the basis of acreage," so as I keep saying to ourselves, an acre of land for CP Rail in downtown Toronto, down on the Gardiner, will pay exactly the same rate as an acre of land up in Pefferlaw for CP Rail. If CP Rail has an acre of land in Pefferlaw, they will pay the same tax per acre as they pay in downtown Toronto. It has nothing to do with market value, it has nothing to do with the value of the land; it's all some mysterious stroke of the pen in the Premier's office that will determine those taxes. So I think you quite correctly say, "If it makes sense to allocate property tax on the basis of acres for the rail lands, why not property tax on the size of the house?" I think that's your point.

Mr Vallance: There are two parts to it. That's partly right.

Mr Phillips: Have I missed your point? You were saying that what the government has done here for the rails is essentially unit value assessment of some sort.

Mr Vallance: Unit assessment, not unit value, and that's really the difference. There's no value attached to it. Do you want me to respond?

Mr Phillips: Sure.

Mr Vallance: Quite simply, I think it's a mistake if an acre of railway land in Pefferlaw is paying the same as an acre of railway land in downtown Toronto.

Mr Phillips: That's what it is.

Mr Vallance: That's the issue I'm talking about. The railway land in Toronto is paying right now taxes — I presume they're taxes — to the city of Toronto for those rights of way. Is that correct?

Mr Phillips: Yes.

Mr Vallance: That railway land in Toronto that's going to be based on this assessment, that number should then be given to the city of Toronto and the city of Toronto should say, "How much money do you have to raise from this?" or "How much money can you raise from this land and what will your rate be?" You give the assessment that the province does for that land, based on the area, to the municipality, and you do the same thing in Pefferlaw, because it's patently obvious to me that the railway should be paying more for the use of the land in downtown Toronto.

Mr Phillips: But that's not what the bill says.

Mr Vallance: Then the bill is wrong to that extent, and that comes to my very point. The assessment system and the taxation should be separate. The problem right now is we're having our taxes set by the assessors and that's the wrong way to go about it. You should have an assessment that's uniform and let the municipality set the tax, based on criteria, based on rules and regulations, and you'll come up with a whole lot of creative ideas across the whole province. Not everything will be the same, but you'll get a lot of wonderful ideas that will work. The cities and the people living in them will have to accept them, because the politicians, if they don't do it right, will get kicked out.

Mr Phillips: Has your organization looked at the plan by the government to set property taxes by minister's regulation? The government now will be —

Mr Vallance: You mean the Russian system?

Mr Phillips: The government now will be setting for businesses over half the business property taxes.

Mr Vallance: That's the Russian system.

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Mr Phillips: I wouldn't mind your comment on your organization's view, but on the residential property tax there won't be any —

Mr Vallance: The residential property tax, as I understand it, is being left to the municipality.

Mr Phillips: No, no. The province is going to, by regulation, set more than a quarter of your property tax by regulation.

Mr Vallance: The school tax.

Mr Phillips: Half of your old school tax will be set not by the Legislature, by the way — we'll never see it; we won't debate it. The only time we'll find out about it is on a Saturday, as you know, when the Gazette comes out and we'll flip to the back of it, "Property taxes this year" — the $6 billion or whatever it is, $6.5 billion — "the Premier has decided will be raised in this fashion." Has your organization looked at that, and do you have any comment for us on whether that's an appropriate way for a government to work?

Mr Vallance: We haven't looked at that specifically because we haven't been meeting on that particular issue, but based on the history of the organization and my tenure there, I would say that my comment is it's a Russian system and it's totally wrong. You cannot do central planning. The creativity of the people in the province is being stifled by doing that type of thing, and you're going to get the person in Kirkland Lake paying the same tax based on the value. The problem is that the property in Kirkland Lake is costing several times as much for the municipality to operate as it is in downtown Toronto where you've got 15-foot lots that are worth the same as a half acre or an acre of land in Kirkland Lake.

Toronto generates more in property tax revenue per square kilometre from its residential properties alone than any other municipality in Metro, and by extension the province, does from all tax revenues. The residential properties in Toronto pay more per square kilometre. We create enormous sums of money to deal with city issues right from residential property taxes.

Mr Phillips: Has your organization looked at the shifting of property taxes from apartments to single-family residences? I think most people who have looked at it realize apartments are paying a disproportionate share, but the government has decided to shift about $300 million of property tax off apartments and on to single-family residences.

Mr Vallance: Across the province?

Mr Phillips: That's across the province, yes. I don't have the number for Metro, although I'd like to get it, but it's quite a dramatic shift.

Mr Vallance: Yes.

Mr Phillips: Certainly I'm pleased for the apartment dwellers, although I'm not at all sure they'll ever see it, but it will mean about a $300-million brand-new cost the province will be putting on single-family residences.

Mr Vallance: I have to be careful here, because I can't answer for the organization. The organization would say that there should be no shifting. I think that's quite obvious from the past experience.

I have done a lot of research in this area, and I know what apartments pay in Toronto and I know what houses pay in Toronto. Apartments pay on average slightly less than single-family dwellings in Toronto, and if you look at the whole west end where you've got 13- and 14-foot lots and 50- and 70-year-old dilapidated houses on them and compare them with some apartments, maybe it's not too far apart. Maybe they're not too far out from what they should be paying, not based on value but based on the services received. Personally, I can see the need for some shift but not on the basis that you're doing it, not by regulation. That should be a local municipal decision, and the taxpayers in each municipality should be able to have some input on what actually happens. I afraid that's the way I see it.

The Chair: Thank you, Mr Vallance, for coming today. We appreciated your very interesting presentation.

GREATER TORONTO HOME BUILDERS' ASSOCIATION

The Chair: Could the representative from the Greater Toronto Home Builders' Association come forward please. You have half an hour to use as you wish. If you would like to leave time for questions, I'll divide it evenly among the three parties. Identify yourself for the record please, and go ahead.

Mr Vince Brescia: Thank you, Chair and committee members. Good afternoon. My name is Vince Brescia, and I am here representing the Greater Toronto Home Builders' Association.

The GTHBA is the voice of the residential construction industry in the greater Toronto area. We represent residential home builders and developers, whether they build single detached, semis, town homes, condominium apartments or develop the land needed for these. We also represent the infill and custom home builder, as well as the professional renovation contractor. Our membership includes the suppliers to the industry: brick manufacturers, window and door manufacturers etc. We also represent subcontractors, whether it's bricklaying, carpentry, drywall etc. Also, we represent many service and professional firms associated with the industry. All told, we have more than 850 member companies and are very proud of the fact that we have been providing services to our members and the public since 1921.

Last year, our members sold more than 20,000 new homes, representing more than 55,000 person-years of employment. That is the equivalent of 55,000 full-time jobs for one year. This year, our job creation numbers promise to be significantly higher, as our industry has been responsible for a rather large proportion of the new jobs created in Ontario in the past year.

In my review of the employment creation numbers that the province produces, the construction industry has been responsible for all the job creation industries, I believe, in Ontario, the last time I checked. Some industries are contracting, so the net growth in jobs that you see is because of the rather large level of growth in some industries, construction being one of them. Our industry has an enormous impact on the Ontario economy, and as such there are thousands of businesses and workers who have a stake in the legislation we are discussing today.

The GTHBA has been generally supportive of the government's efforts to improve fairness in the property tax system across Ontario. While we did express some reservations about the first bill — one example being the lack of a perhaps more concerted effort by the province to reduce the unfairly high tax burden on the poorest members of society, renters, which we were just discussing a moment ago — on the whole we were supportive of the government's efforts to tackle this tough issue.

However, I am here today to tell you that our association has serious concerns about the government's follow-up piece of legislation, Bill 149. In particular, our industry is directly impacted by those provisions of Bill 149 which relate to the taxation of farm land pending development.

Before I talk about Bill 149 and its impacts, I would like to talk a bit about the history of the assessment of farm land in order to set the context for this discussion.

Back in 1955, the Assessment Act was amended such that lands used for farming purposes were assessed solely on their value as farm lands, with no consideration given to the value of land sold in the vicinity. The purpose of this amendment was to protect farmers against large tax increases as development occurred around them, which might force them to abandon farming and urbanize their lands.

Over the years, the protection to farm lands provided by this amendment has been both broadened by the Legislature and clarified in the courts. The intention of the Legislature in this regard is perhaps best summarized in a 1981 decision of the Ontario Municipal Board, which states:

"The board agrees that the sole intent of the Legislature is to assist farmers in continuing to farm land despite the pressures to sell land, which would be particularly aggravated if their taxes were raised to the rate which would be paid if the lands were not being utilized for farm purposes. It is the belief of this panel of the Board that those purchasing lands with the intent of subdividing are thereby also encouraged to keep land in food production as long as possible."

For the last 40 years, provincial legislation has provided this protection to farmers and ensured that lands

in the development process continue to be used productively until such time as they are actually needed for development.

Bill 149 and its associated regulations alter the legislative framework which has governed farm land in the development process, and this could have significant consequences for our industry and the economy generally.

Bill 149 provides for the creation of three subclasses of real property for farm land in the development process for each of residential, multi-residential, commercial and industrial property. Previously, no such subclasses existed, and farm land was simply assessed and taxed as farm land as long as farming activity continued.

The bill provides trigger points for increasing tax rates on farm land at the following stages of development: at the draft plan approval stage; at the registration of subdivision stage; and at the issuance of building permit stage. At these trigger points, the province establishes a minimum tax rate of 25%, and provides upper-tier municipalities with the discretion to raise the tax burden to 50%, 75% and 100%, respectively, for each of these stages of development I mentioned earlier.

Preliminary estimates by our association, based on discussions with a number of members, suggest that the new policy will lead to percentage tax increases that are in the thousands. One of the things that is most surprising about this policy, besides the massive increase numbers, is the fact that it would come from a government that has made a point of emphasizing tax cuts and job creation. This policy most certainly does not conform with these objectives, and in fact flies in the face of these objectives. It also runs counter to the government's own planning policies that require municipalities to maintain an adequate supply of designated and draft approved land for development.

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One might expect a number of impacts of this new policy, and I'll outline a few of them, as follows:

The incentive to farm land which is in the development process will be reduced.

A reduction in jobs and other economic stimulation associated with the agricultural use of this land.

Higher land and subsequently housing costs, for a number of reasons, both because of increased taxes applied to the land and because there will be a reduced supply of land as people change their behaviour to avoid higher levels of taxation by receiving draft approval.

There will also be an increase in the number of "eyesore" vacant lands. They will crop, up as people will be less inclined to farm their land in the development process.

Existing firms might actually reduce their expansion potential by divesting themselves of lands which neighbour their industrial sites.

As well, there will be a reduced viability for smaller developers and builders, as they will not be able to finance the land through the development process.

Altogether, increasing shortages of land supply and increasing tax levels I expect to have a dramatic impact on housing prices for people trying to buy their first home — housing affordability generally.

From an industry perspective, this new policy looks bad enough when you look at it in isolation. However, it gets worse when you look at it in the context of increasing taxation levels on our industry over the past 15 years.

Land transfer tax rates were raised substantially in 1985. This tax is typically applied at several stages in the development process, depending upon how many companies are involved as the land moves through the process to final sale to a homeowner. The GST was introduced in 1989, which resulted in a substantial tax increase for home buyers, even after the rebate is taken into consideration. This new tax added about three percentage points to the cost of a new home, or about $6,000 in taxes for a $200,000 home. Education development charges were also introduced in the late 1980s, which now add anywhere from $1,300 to $2,300 to the cost of a new home in the greater Toronto area. Finally, we saw a massive increase in municipal development charges in the 1990s. There has been a doubling, tripling and in some cases even a quadrupling of development charges since 1989. Municipal fees and charges on an average house in the GTA typically range from $20,000 to $30,000 today.

An estimate done a couple of years ago showed that a standard home in the city of Vaughan would be subject to over $50,000 in various taxes, levies, fees and charges by municipal, federal and provincial governments. Municipal charges amounted to about $29,000, with the province collecting about $9,000 and the federal government collecting over $12,000.

As you can see, put in this context, an increase in taxes for farm land in the development process would be only one in a series of tax increases on the housing and development industries. Yet another tax increase is not what we need to create jobs and ensure that housing remains affordable in Ontario.

I was talking about the impact our industry has had on job creation in the province in the last while. It would be unfortunate if the current policies were to reduce that impact.

In this regard, I would respectfully ask this committee to consider recommending to the government that it reiterate in the legislation a policy that taxes all land being used for farming fairly, equitably and at the same rate, regardless of what stage in the development process it is in. Put more simply, we are asking that historic taxation policies be maintained and that there be no tax increases for farm land pending development.

That's the end of my presentation. I'd like to thank you for listening, and I'd be happy to answer any questions if there are any.

The Chair: Thank you very much. We have approximately 20 minutes left, and we'll start with Mr Pouliot of the NDP.

Mr Pouliot: If there is one thing emerging from this set of public hearings this week, it is — well, as with your presentation vis-à-vis the farm land, for many it is cata-

lytic. You will tell us, by way of a question, do you see your land inventory as builders being jeopardized?

Mr Brescia: Absolutely. The builders I have talked to have said unequivocally that they will avoid getting draft approval for their land for as long as is possible as a result of the new policy. This, of course, will have quite dramatic impacts on land supply. We know how the market can work at some points, where there can be sudden increases in demand; we could see huge spikes in prices and some unfortunate things happening, because people will be behaving quite differently. They won't naturally prepare for development and keep a ready supply of land; they will hold it back as long as they can in order to avoid getting an increase in taxes.

Mr Pouliot: I trust that on this issue the government might find it difficult to help people — both heading in the same direction, both strong believers in job growth, "Ontario open for business," all the right clichés, and they mean it. Yet when you look at the big picture, if you leave things as such, experts and other people in the field, like yourself, are saying: "No, no. If you mean what you say, it's more expedient, we can achieve those goals better, by leaving the system as is. We have no opposition. Once we play our final card, then you can go to the right assessment. We realize there has to be a change then. But in the meantime, let us be."

On your development charges, you paint a rather appalling state of affairs, which leads me to ask — I'm a little bashful about asking you, but I will do it anyway.

Mr Brescia: Please.

Mr Pouliot: You have immunity here, sir. Do you feel that in some municipalities, development charges got away on them and they saw it as an opportunity to — another tax?

Mr Brescia: I would tend to agree that there has been a perception in our industry, and I recognize that this has certainly been an issue of debate between us and the municipalities. We were quite concerned with the massive growth in these charges. Quadrupling is what happened in many municipalities in the GTA over a very short time, during the recession, in fact, to a level which is the highest in North America. Our belief is that yes, there is perhaps a little gold-plating, that things cost more than they should have, that there are less costly ways to do things than were chosen.

Mr Pouliot: I was hoping you wouldn't say — in fact, I almost said notwithstanding the gold-plated. We use "gold-plated" so easily. What I see is an ordinary library. When I buy a house, I buy the library, a little of it. I buy location, the lifestyle, if you wish. I buy the park. Gold-plated? Municipality leaders and others are saying it is not. I mean, this is no Taj Mahal; this is the way we do things in a civilized society. The trees belong to everyone. We don't want your "eyesore," so people building a new subdivision should be asked to contribute. You're asking that the lid is kept on it, that it not be out of control. With respect, I fail to see the gold-plated. To me, gold-plated represents something else.

Mr Brescia: Well, we may agree to disagree on this issue. I doubt I would sway you. But there certainly are ways you can do development which are quite attractive, which are subtle but do reduce costs. Drive through Ancaster some time. You don't see the curbs. You see a development that was done a long time ago which is quite attractive, a nice place to live. It costs less to do, and there are things like that that we'd like to see which we think don't necessarily detract from the beauty of a municipality.

1550

Mr Phillips: I think there's a lot of evidence that the government has made a mistake on the bill, for whatever reason; I don't know, but there's some speculation. We've heard from most municipal leaders that they don't think the way the bill is proposed is smart, and they're the ones who stand to benefit a fair bit. The province, I must say, has become a big partner in all this. The province is getting a third of this tax revenue. I don't know whether their fine hand is behind this, because they've muscled into the property tax area in a big way. For every dollar collected, they're going to pocket a third of it. It's $6 billion worth of revenue they're getting, so they may be —

Mr Brescia: Actually, that thought hadn't crossed my mind. Far be it from me to attribute motive, but —

Mr Phillips: They have a — what do you people call it? — a pecuniary interest, a financial interest in the outcome of this, because they've assumed one third ownership of all property tax, which is breathtaking, in many respects. The old taxfighters have now confiscated a third of the property taxes by way of regulations. It's breathtaking. To my colleagues in the Conservative caucus, it just seems foreign to what I thought they thought, which was that this should be out in the public, in fact that we should have a referendum if we're going to take taxes up. But now, for whatever reason, Mike Harris wants authority to set a third of the property tax by regulation. It never comes before any public body; it's just that one day a piece of paper is put in front of the Premier and he signs it, says, "Get me $6 billion from those municipal people." I'm just saying that is one possibility, that the province says, "Listen, we want a third of all those dollars and we want a dramatic increase in the valuation of development lands."

Having said all that, I do think it is a mistake that even they are recognizing now, and I hope the government is coming forward with some amendments to correct it.

Mr Brescia: I certainly hope you're correct. We're hopeful.

Mr Phillips: We're dealing with the amendments on — what's the date?

The Chair: The amendments have to be in by Tuesday at 5, and it's November 4. Is that right?

Clerk of the Committee (Ms Rosemarie Singh): The 23rd. The 4th is the clause-by-clause.

The Chair: The 4th is clause-by-clause. Is that what you're referring to?

Mr Phillips: Yes. We meet to deal with them, so you may want to come and watch the proceedings. With a

single exception, municipal politicians, the industrial land developers, the home developers, have all said — I think you make a good case, on both the industrial and residential side, that we are simply artificially driving the cost of housing up.

Mr Brescia: I think you're right. There may have been some mistake, perhaps, a perception that this policy is something municipalities wanted. I think a number of mayors have let it be known that this is not something they particularly wanted. I believe even the association that represents all economic development departments has written in to the minister suggesting that they don't support the policy.

The Chair: Excuse me. The amendments have to be in next Tuesday, which is the 28th, not the 23rd — that's what I said previously, the 23rd — and then the clause-by-clause is on the 4th.

Mr Phillips: For my clarification, all amendments, government amendments included, must be in by —

The Chair: The 28th at 5 o'clock, and the clause-by-clause will be held on November 4th.

Mr Grimmett: Thank you for your presentation, Mr Brescia. The concept of preserving farm land is probably a motherhood statement. I think you'd have a hard time finding people in Ontario who would say it's a bad idea. That is an interest we all share, one that the legislation has tried to deal with. In fairness, I think the current situation with assessment could be criticized as not doing that. We've heard some examples where currently, assessment departments are assessing farm land at very high figures. Are you aware of those?

Mr Brescia: Well, there's been some activity in the courts around a particular case that I'm aware of. It's been relatively isolated, from my understanding, but I'm happy to be corrected if it's more widespread.

Mr Grimmett: But is it fair to say that the development industry is not particularly happy with that situation at present?

Mr Brescia: No. Like I said, it is still in the courts, and it has to be determined what is going to be the outcome there, but it was seen as a sudden and dramatic change in assessment policy from what we were used to over the last 40 years.

Mr Grimmett: So there's a need for reform.

Mr Brescia: There might not be, depending on what happens with that particular court decision.

Mr Grimmett: What level is it at now?

Mr Brescia: I can't even recall, to tell you the truth.

Mr Grimmett: Well, we've certainly had one person here today who, under the system proposed in Bill 149, would get dramatic relief from the current system. He has had the taxes on his farm in Mississauga —

Mr Brescia: Yes, Mississauga is where there's a bit of an isolated problem, compared to the rest of the province, I believe.

Mr Grimmett: How is it isolated to Mississauga? I don't know the answer to that. I probably should, but can you help me with that?

Mr Brescia: I'm not sure I can give you the details. I'm probably the wrong person. I am aware that that is where the Amoco problem developed. I don't know who it was who —

Mr Grimmett: The gentleman who was in today, Mr Goodman, indicated that his family farm, 100 acres in Mississauga — and it could have been in any jurisdiction, for all I know — has gone from $3,000 annual taxes to $300,000 annual taxes. It has been zoned industrial/commercial, but it continues to be farmed. He's asking for relief from the current system.

Mr Brescia: While I can't speak to that particular person's case, what I can tell you is that in talking to virtually all of my members, I haven't had a single member say that this new proposal will give them a relief. The answer had been common from all the members I have spoken to, that it will be a rather large percentage tax increase. I'm just going by what my members have told me and the rough examples we have worked out in terms of what the impact would be. As far as our membership is aware, the vast majority of farms in the GTA are still being assessed in the old fashion, as they have been historically.

Mr Grimmett: Based on use and not on zoning.

Mr Brescia: Yes.

Mr Grimmett: As you are aware, under Bill 149, if they have not been taken to the draft plan status in development, it would allow for them to be eligible for up to a 75% decrease or rebate in their municipal taxes.

Mr Brescia: My understanding is that the relief comes after draft plan approval, not before. Before, they are assessed as farm land, as they are currently.

Mr Grimmett: That's what I mean.

Mr Brescia: But once they reach draft plan, the relief of 75%, up to 50% — there's municipal discretion there, obviously — still represents a rather large increase if you're a farmer holding a piece of land. You could have two farmers next door to each other, both doing the same things on their property, but one paying a dramatically higher tax rate than the other. It would make it kind of difficult for one to bring their goods to the market in competition with the neighbour.

Mr Grimmett: You have the benefit of making your point on a day when we've heard the same point from several others.

The Chair: Thank you very much, Mr Brescia, for coming here today and your interesting presentation.

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HENRY OF PELHAM FAMILY ESTATE WINERY

The Chair: Could the delegation from Henry of Pelham Family Estate Winery please come forward. Welcome, and thank you for coming. You have half an hour to use as you deem appropriate. If you do a presentation and leave extra time, I'll divide the extra time between the three parties for questions. If you could please identify yourself for the record and then go ahead.

Mr Matthew Speck: My name is Matthew Speck. I'm here representing Henry of Pelham Family Estate Winery. My current role with the winery is as our vineyard manager. I'm the vice-president of sales. I'm also a member of the family that owns and operates the winery. I'm also one of the committee members of the Ontario Grape Growers' Marketing Board, the OGGMB.

I'm just going to introduce the winery and then speak a little bit about taxation, how market value affected us. We're a midsize estate winery in the west end of St Catharines in the Niagara Peninsula. Our wine production started in 1988. Our current wine-grape vineyards were planted in 1984. The farm land that we have has been in my family for over 200 years, actually. It was originally Empire Loyalist land. It has had vineyards on and off it and mixed farming of all types, fruit farming, livestock of all types, since 1794. The vineyards were planted in 1984. It takes about four years to get a crop. Our first crop was 1988, and that's when we started the wine production. We started at about 2,500 cases. This current year, we're looking to produce somewhere between 40,000 and 42,000 cases. So we've seen very good growth. I think we're representative of what's happening in the Niagara Peninsula right now in the wine industry, especially in our category, the estate winery, premium wine industry.

We currently employ 18 full-time employees, including myself and my two brothers. We have somewhere between 10 and 20 part-time employees, depending on the time of year. Right now we're in the middle of harvest, so there are people everywhere.

Our vineyard land has increased in the last 10 years from 50 acres to just over 225 acres. So the farm part of our operation is probably the fastest growing, where we've put the most emphasis on expansion in recent years.

Another part of our operation is the agritourism component, which is extremely important to our marketing and our direct sales as well. We see somewhere around 35,000 people annually through the winery and through our retail shop and tour facility.

Our immediate plans for growth were halted a year ago when we got our new tax bill, but we're looking at, somewhere in the neighbourhood of the next four to five years, doubling our winery production. We want to be somewhere in the 60,000- to 80,000-case range and continuing to add to our vineyard holdings as well.

I think our winery is fairly typical of the growth in estate wineries in Niagara over the last five or six years. This sector is experiencing tremendous growth. It has really tremendous potential for further expansion. It's really, in our view, only starting to take place. We're sort of at the tip of the iceberg of where this industry can go. Wineries have been buying land to plant grapes, and in many cases have doubled — or in our case, we've quadrupled our land holdings in the last four to five years.

As you can imagine, when we received an assessment notice from the region of Niagara in 1996 that raised our taxes $25,000 in one shot, we were stunned. We were also not alone. At least 10 of our neighbouring wineries received similar increases; in some cases, much worse.

This happened only in Niagara wineries. The wineries in southwestern Ontario, which had not been subject to market value assessment, had not had their taxes raised. But we were told by officials in Niagara that it was only a matter of time and that by 1998 all wineries would be stuck with a similar tax bill. In Niagara-on-the-Lake, for example, at Reif Estate Winery, which is another small, family-run winery similar to us, their taxes went from $10,000 to $40,000 in one year. They quadrupled. We were told that this huge increase was the result of changing our assessment factor from farm to industrial, even though our land remains zoned as farm land, as agriculture.

The key really lies in what this zoning means. As agricultural land, we are very limited in what type of development we can have and what we can do with our land. Our land remains agricultural, we're taxed as industrial, but our use of the land is still confined to agricultural uses, farming.

The other main thing that hits us is that there are many services. If you're going to be taxed at an industrial level, you would also like to see the services that are typically given to industrial land. Mainly in our case, it's water supply and sewage. We have to truck water in. We're out in the middle of the country, so we truck water in. We've had to build storage tanks and cisterns to hold the water. We truck it in daily. We've also had to build extensive septic systems, tile beds, to handle the sewage. All these things are very costly.

These are large expenses, but because we are largely a farm we accept these as a consequence of being on agricultural land. We are very committed to agriculture. Estate wineries, as is any premium winery around the world, are first farmers really and then wine makers second, as the vineyards are really the fundamental factor to producing quality wine. But to be taxed as though we were an industry with the services of industrial land is ridiculous and amounts to making us pay for these services twice.

The result of this change was that many wineries in Niagara immediately put expansion plans on hold. For example, Magnotta Winery bought land in Niagara-on-the-Lake with the intent of building a winery last year. That land is still sitting vacant as a result of the tax implications.

We were also planning to add to our facility this year. We were looking at basically doubling our facility and then allowing our production to grow within that. When we got looking at the costs of that, basically the increased tax bill we'd be looking at would be almost what it would cost to carry the mortgage on the additional buildings we need. Many of the buildings are simply to hold tractors and equipment which is related directly to our farming. We've already begun the expansion on our vineyard farm side, and as that increased production starts to come in, we need basically a building with tanks to hold the grapes after we process and ferment them.

Given this information, I'm sure you can understand how pleased we all were to see that the province was prepared to look at this issue seriously and to try to find a

way to address the problem of value added activities on farms in the new assessment system. Bills 149 and 106 and the amendment to subsection 19(5) that was tabled with this committee do solve this problem for our wineries. As I believe the Wine Council of Ontario outlined yesterday, the amendment means that winery buildings sitting on land zoned for agriculture will have the land under the buildings assessed as farm. That will make a difference of several thousand dollars for Henry of Pelham's tax bill, and it will make a difference in our ability to expand and grow in the years to come.

As well, as I mentioned before, I represent the grape growers. I'm on the Ontario Grape Growers' Marketing Board. I can tell you that there are a number of grape growers considering starting their own wineries in the future. These growers would have been prevented from doing this by huge tax increases on their property. If this change goes through, I believe you will see many more wineries in Niagara and southwestern Ontario over the next few years.

There are many grape growers that may have a large farm operation. The danger they run is that they take this large farm and just start making a little bit of wine, and all of a sudden their barns and equipment sheds, their whole property, becomes industrial. It doesn't make sense. It's not viable. The same is true for many people in Niagara and throughout Ontario who are involved in farming and want an opportunity to expand their businesses by doing some processing of the produce from their farms. If they are required to be industries to do this, most farmers will not be able to do anything but farm on their land. That would damage the long-term survival of many farming operations in Ontario, from maple syrup producers to juice grape growers to pretty much any farm product that can have value added work done to it.

1610

Finally, the other major change in the assessment system, allowing assessors to come in and assess your property according to what is actually being done on the site, is very important to the wine industry. It means that our retail store, which is housed in a historic building, will be assessed as commercial rather than industrial and that the farm buildings, barns and things like that, will be assessed accordingly and not as industrial buildings. Again, this will make a large difference in our overall tax bill, and it's much more fair and appropriate for the use we're putting those buildings to.

Henry of Pelham and all the estate wineries in Niagara, almost 30 of us right now, are very pleased with the changes that are proposed to the assessment process, and we would urge you to support them in order that new estate wineries and all value added farming operations can thrive and bring a new dimension to the agricultural industry in this province.

The Chair: Thank you very much. There are approximately 19 minutes left, so for questions I'll begin with the Liberal caucus.

Mr Phillips: Thank you for your presentation. As we said to the other people who are involved in the wine industry, you're all to be commended in an industry that was kind of on its back 15 or 20 years ago and has really done a fabulous job producing a great product plus a whole bunch of other things, tours and things like that.

I think all of us were concerned that without the amendment it would be detrimental to you. I guess the industry has looked at it and is satisfied that it meets your needs. I don't think there's any reason it won't go through. I think it makes sense for everybody. I don't really have any questions. I think you're doing the right thing being here to sort of grease the skids and make sure it keeps rolling along, but there's certainly no opposition from any of the committee members, that I'm aware of, at least. I don't have any questions.

Mr Grimmett: Mr Speck, you're one of many satisfied customers we've had in today. Certainly it seems that you're in the enviable position of having a business that has a tremendous upside in the future. It's nice to see someone who is so enthusiastic about the future.

I'm told by the research people we have here with us that there are 12 bottles in a case. Is that correct?

Mr Speck: Yes, in most cases.

Mr Grimmett: So that's about 450,000 to 500,000 bottles a year that you're currently cranking out. How many people would you employ on an annual basis if you talked about person-years? If you stretched out your part-time people, how many full-time people would you employ?

Mr Speck: Probably 30-some-odd people.

Mr Grimmett: How many would you anticipate going to if you doubled your productivity, as you're talking about?

Mr Speck: A lot of our expansion is in the vineyard, which is very labour intensive, so it would at least double, I would think. With some of the winery stuff, you can realize more economies of scale at that level, but the vineyard work is still mainly done by hand. I would think you're looking at doubling.

Mr Grimmett: This is totally unrelated, but is the vineyard work done entirely by domestic employees?

Mr Speck: Yes, for us it is.

Mr Grimmett: So you're happy with Bill 149, and you think it's going to benefit the entire Niagara area as a result?

Mr Speck: Yes. I think it's a fair resolution. It would definitely benefit the area. It opens the door. I know just from talk around the coffee shop and all that, when you're with other farmers and growers, that when those types of tax increases come down the line, everyone says, "Forget it."

Mr Grimmett: You said you knew of another wine operator that did not proceed with expansion. What kind of tax increases were you looking at?

Mr Speck: I'm not sure what he was looking at. For us, our taxes were just over double. Excluding the farm, just on the piece of land the winery is on, it was more than double. In some cases, like Reif, it was four times; it quadrupled his taxes. Anyway, all the stories were somewhere in that range.

Mr Grimmett: You're an average-size operation?

Mr Speck: Yes, we'd be a midsize operation.

Mr Grimmett: What kind of a year has it been this year cropwise?

Mr Speck: This year has been great, actually; very good.

Mr Grimmett: The crop has been good.

Mr Speck: Yes, the crop is super; super-high quality.

Mr Grimmett: Thanks for coming in.

Mr Pouliot: Mr Speck, you're to be commended. You're a good-news story. It's refreshing for this committee. It has been a difficult week. The great majority of people have expressed some very serious concerns. But in your case, in the capacity of what you do, you're one of the very few winners, if there's any such thing as winners when dealing with the government. We're all happy that your needs have been addressed.

You have 225 acres. When you mentioned an expansion within the next five years to 60,000 to 80,000 cases, would that entail that you would purchase more land?

Mr Speck: We're not sure. We also buy from a lot of growers around us. We have contracts with other farmers. So we're not necessarily looking to purchase more land ourselves but to increase our dealings with other farmers around us.

Mr Pouliot: What would be the approximate cost, a ballpark figure, of an acre of land for the purpose of harvesting wine?

Mr Speck: The cost of purchasing the land is anywhere from $5,000 to $10,000. But the real cost is in developing the land to vineyard. The figure being used right now is about $12,000 to $14,000 an acre, the development cost.

Mr Pouliot: In 1984 when you planted, did you dislodge any other grapes and go with something more conducive to estate wine, or did you start from scratch?

Mr Speck: We did some of both. We ripped out a lot of the old, unviable vineyards. That has really been the trend in the industry in the last 10 years. That's why it's such a new, competitive, thriving industry: the ripping out of those old grapes. We replaced them with the European varieties.

Mr Pouliot: Very much so, indeed. The possibility for a range on the red is also expanding.

Mr Speck: Reds are really just in the last couple of years starting to take hold. It was mainly white wines that were planted originally.

Mr Pouliot: Indeed. I want to wish you well, and in what you benefit from, a fair or just tax system, if there's any such thing, I hope — because there's a temptation to what governments sometimes see as losing by definition, because you're going back to your rightful definition, that of farm — that there won't be any temptation to go after the buildings and to hit you on the industrial side. I'm very pleased, and I want to commend you and thank you for taking the time. It's a busy time of year for you.

The Chair: Thank you very much for coming in and for your interesting presentation.

The committee stands adjourned until tomorrow morning at 9 o'clock.

The committee adjourned at 1619.

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Comité permanent des finances et des affaires économiques

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Loi de 1997 sur le financement
équitable des municipalités (n° 2)

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Published by the Legislative Assembly of Ontario

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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 23 October 1997

Jeudi 23 Octobre 1997

The committee met at 0904 in committee room 1.

FAIR MUNICIPAL FINANCE ACT, 1997 (No. 2)

LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS (N^O 2)

Consideration of Bill 149, An Act to continue the reforms begun by the Fair Municipal Finance Act, 1997 and to make other amendments respecting the financing of local governments / Projet de loi 149, Loi continuant les réformes amorcées par la Loi de 1997 sur le financement équitable des municipalités et apportant d'autres modifications relativement au financement des administrations locales.

RETAIL FAIR TAX GROUP

The Vice-Chair (Mr Wayne Wettlaufer): Good morning. I'd like to welcome everyone to the standing committee on finance and economic affairs. I welcome the Retail Fair Tax Group, and I wonder if you could identify yourselves, please.

Mr Frank Zinner: My name is Frank Zinner; I'm with Hudson's Bay Co.

Ms Sharen Cain: Good morning. My name is Sharen Cain; I'm with Shoppers Drug Mart.

Mr Darryl Thompson: My name is Darryl Thompson; I'm a manager at Loblaws and a past chairman of the Canadian Property Tax Association.

Mr Jack Walker: My name is Jack Walker; I'm with Walker, Fox, Van Moorlehem and Attard, a law firm.

The Vice-Chair: You are free to make your presentation. You have half an hour, and any time that is left over after you make your presentation will be open for questions. You can begin.

Ms Cain: As I indicated, my name is Sharen Cain. I'm director of real estate at Shoppers Drug Mart. I am part of the Retail Fair Tax Group, and I'd just like to tell you a little bit about who this group is and what companies are involved.

Our group is comprised of 10 of Ontario's largest retailers, including the T. Eaton Co, Sears Canada Inc, K mart Canada Ltd, Woolworth Canada Inc, Winners Apparel Ltd, Hudson's Bay Co/Zellers Inc, Wal-Mart Canada Inc, Loblaws Properties Ltd, Shoppers Drug Mart and the TDL Group Ltd, which is the Tim Horton group. Combined, our group has over 1,500 locations in Ontario. We pay in excess of $260 million in property and business tax. We employ roughly 150,000 full- and part-time employees across the province.

You may recall that back in 1995 there was a lobby effort on behalf of some of the tenants, and some people referred to it as the mall wars. The composition of this group is different in that the anchor tenants and the CRU tenants, or the commercial retail units, are sitting here together. The reason for that is it's an issue that affects all tenants in all properties, commercial, industrial, because what we're concerned about is tenant rights under the proposed amendments to the legislation before us today.

Historically tenants have participated in the assessment and valuation process, and our goal is to continue to participate effectively in the assessment process by ensuring that the properties which we occupy are fairly and equitably assessed in relation to one another.

I'm going to start to talk about how a shopping mall is valued today in referring to the slides. Typically what would happen is the first anchor tenant would be valued. In our example, we have indicated that anchor A has a value of $30 million applied to it. The next step would be to value any other anchor tenants that happen to be in the mall. In our example, we have indicated that anchor B has a value of $25 million applied to it. The third step would be to value the individual CRU tenants, and the process there briefly would be simply to identify on a square foot basis the CRU tenants and apply a fair market value to those tenants. The end result is a total value for the CRUs, and our example is $20 million. The total market value in our example of this mall is $75 million.

Historically, the realty assessment would be sent to one owner of the property. Business assessments would then be sent to all the tenants, which would therefore form the basis for our understanding what the assessed value for our property was and give us the information we needed to determine our tax obligation. Under this system, any tenant could appeal its portion and focus on its portion of the overall assessment.

Under the proposed legislation, what's happening next year, the first step will be the same, a realty assessment will be sent to one owner, but what is happening under the new system is that — you'll see on our slide there are no individual tenants identified — it's all just one entity, so the concern is that with the business assessments being

eliminated, all parties must appeal the overall value of the property, and at this time it's also unclear whether the tenants will be permitted to focus on their portion.

Mr Thompson: My name again is Darryl Thompson; I'm with Loblaws. I'm going to continue the presentation.

After the mall has been valued, the municipality then issues a tax bill, and that tax bill is sent to the owner of the shopping mall, shopping centre or multitenanted property. One thing we should remember here is that this legislation and what we're presenting here today deals with all tenanted, income-producing properties, not just shopping centres. We're just using it as an example.

Again, the municipality sends the tax bill to the owner, who acts as a tax collector. He gets the bill, and as the next slide will show, the owner then develops a process to bill the tenants their proportionate share of taxes based on the lease agreements they have with the owners. The tenants then remit back to the owner those taxes. He then remits it back to the municipality. So to the owner, it's just a flow-through process. He receives a bill, passes on the invoices to the tenants, the tenants remit back, and he acts as the collector and remits it back to the municipality.

Some of the changes under Bill 149 we would like to bring to your attention today. Historically, if you look at the chart in front of you, a tenant received a notice of assessment, a tenant had access to his information, he had the right to reconsider and be a part of a reconsideration process, and he was also allowed to focus on his own portion of his taxes and his assessment. Under the new Bill 149, the tenant loses all those rights, and it gives the owner or landlord absolute power over that part of the tax payments and tenant remittance to the owner.

0910

It might be a little tough to see, but this is a cross-section of a number of malls throughout Ontario. You can see from a tenant's perspective how important the tax liability is. In some cases it's as high as 70% of his rental costs. To require a tenant to remit taxes based on 70% of his rental costs with no right or access to information on how those costs are arrived at is detrimental to the leasing and tenanting of malls and detrimental to the small business itself, with the inherent costs of such high taxes.

I want to review some of the fundamental objectives of Bill 149. The first one is fairness. As you can see, what I have just gone over removes the longstanding rights of tenants. Tenants have always had certain rights to be negotiated. We've always had the opportunity be watchdogs on the assessment process. We're the taxpayers. We want to know what our portion is and we want to be able to fight that tax portion and have access to the information accordingly.

It also excludes the participation of knowledgeable parties. That goes along with the watchdog process. The tenants are normally the ones, and historically have been the ones, who have appealed assessments. Owners appeal assessments to a certain point, depending on the profitability or competitiveness in the market that they share. If there is no competitive market and the owners are fully tenanted, there is not the same motivation for an owner to appeal the assessment on a property as there is for a tenant who is the actual taxpayer.

The second basis is consistency. The current legislation will give all the rights to the owners, as I have previously stated, and only limited rights to tenants. Tenants will only have access to information based on small errors, clerical omissions, that kind of information. The actual basis and meat of the tax payment, the tenant doesn't have any reconsideration process available to him. The whole Bill 149 goes against the reality of commercial leasing practices in today's market. Some 95% of all leases are net leases, the tenant picking up all the costs associated with their premises, and I think this bill goes against that premise.

Accountability: Tenants are unable to seek an equity of assessment. It's very difficult for a small tenant to compete in a marketplace when some of his costs are unknown. He is also trying to compete in a marketplace with competitors that don't have the same kind of costs or who may have access to information and access to appeal that he does not because of his location in the mall. Currently the assessors' methodology impacts on existing leases. Everything that the assessor does, the methodology process, would certainly reflect on all the leases currently in the marketplace.

What are some of the amendments that we feel are required to this legislation? All stakeholders, owners and tenants, must have the opportunity to work together and work as that watchdog process. Tenants should be given the right to request reconsideration, a form so that they can look at their information and find out if they are being correctly assessed. In order to participate, information is crucial. As it stands now, the only time that a tenant will receive information is when he has to appeal the entire assessment. Up until then, neither the assessment office nor the landlord has to give the tenant any information whatsoever on the basis of their assessment.

Finally, it's unreasonable to require a tenant to argue the value of an entire property. If you're a 2,000-square-foot tenant in, for example, Yorkdale, currently legislation says you have to appeal the entire Yorkdale mall in order to be reconsidered and have access to information on your 2,000-square-foot portion. That becomes a business case decision now; it goes against equity and fairness of valuation. It comes to the point, "Can I afford to spent $30,000 to appeal a mall to save $3,000 in taxes?" the down point being if you lose the appeal on the entire mall, you have lost $30,000 plus the $3,000 in extra taxes that you appealed to begin with.

To conclude, we want to continue to participate effectively in the assessment process. To do that, the tenant should have the right to request a reconsideration, the tenant should have the access to information, and most important, the tenant should have the ability to focus on their own portion of the property, what directly relates to them. I think that's an important part to small business and the larger retailers as well, "What directly affects my business, and how can I be competitive in this marketplace?"

Mr Zinner: I'm going to conclude our presentation. My name is Frank Zinner, and I'm with Hudson's Bay Co. I'm also the current vice-chairman for the Ontario chapter of Canadian Property Tax Association. A bit of my employment background is I was a property assessor from 1974 through 1987 for the province of Ontario.

In its overall reform of legislation and regulations, the province has set goals of reducing red tape, cutting the size of government, streamlining processes and enhancing job creation and growth prospects of Ontario business. We believe that sound assessment policy can help the province accomplish these goals and that a full discussion of assessment process options and their implications will benefit government, business and municipalities.

We have asked AEC to undertake an analysis of four policy options against criteria which address the impact on the province, owners, tenants and municipalities. The four policy options are (1) maintaining the status quo; (2) Bill 149 as presented; (3) Bill 149, amended to allow reconsideration and appeal options to tenants, with the obligations on the owner or the province to provide individual notices to tenants; (4) Bill 149, amended to allow the tenant to request a reconsideration of the valuation of the specific tenancy if the tenant is responsible for the payment of taxes under its lease.

The four options range from maintaining the status quo through extensive amendments to Bill 149, to minimum amendments to Bill 149. While numerous other variations are possible, it is suggested that the four are adequate to begin discussion on the important issue of taxpayers' rights, access to information and rights of appeal.

We will present the committee with our brief after our presentation. The submission uses the relationship between property owners and their tenants to illustrate the issues. The problems that are identified are equally applicable to all owner-tenant relationships where the tenant is responsible for paying taxes. The analysis has led to the following conclusions and recommendations:

It appears that Bill 149 is only partially successful in achieving the government's stated municipal reform objectives. The one-tier appeal process is welcomed by all parties and may reduce the red tape to some extent. Expected cost savings that were to result from limiting assessment notice provisions will likely be more than offset by additional costs incurred by forcing unnecessary new appeals. This suggests upward pressure on administrative costs at the Assessment Review Board.

By limiting the parties who receive notice and thereby limiting those who may request reconsideration or partial appeals, Bill 149 undermines the integrity of the assessment process by significantly diminishing taxpayers' rights.

Based on the analysis undertaken by AEC, the Retail Fair Tax Group recommends the government consider the third and fourth policy options which amend Bill 149. Both these options will allow the government to meet its objectives while at the same time preserving the rights of tenants as taxpayers. These options amend Bill 149 in a manner which would offset the regressive aspects for Ontario businesses.

Policy options 3 and 4 provide alternative methods by which information on assessed values could be made available to the tenant. They also allow the tenant access to the reconsideration program, while preserving the government's objective of one level of formal appeal. We believe either of these options would further the government's stated objectives while addressing the concerns raised by the submission.

Policy option 4 preserves the tenant's right to access to information, maintains confidentiality and allows the tenant the right of reconsideration.

Bill 149, as drafted, dramatically changes the manner in which tenants are dealt with in the assessment process. No longer will the tenant receive individual notices of assessed value of the space he/she occupies in the total property. No longer will there be the opportunity to seek redress of concerns regarding the assessment through an appeal process of his or her own individual tenancy. The tenant in fact will not even have the right to participate in the admirable innovation of the request for reconsideration program.

0920

The result of these changes is that a group of taxpayers will have lost a substantial portion of their historic right to redress. In doing so, they will also be forced into costly new processes regarding requiring formal appeals of the assessment and entire properties in order to resolve minor assessment concerns.

These changes appear contradictory to other parts of the bill which continue to afford these rights to tenants in so far as supplementary assessments, correction of errors, omissions and other assessment changes that occur. The cumulative impact of the changes on tenants is to restrict their rights, add to their costs and create a new layer of red tape in their path of concerns. That concludes our presentation.

Mr Walker: I'd like to make one statement before you ask questions. The reality of what this bill does is that the tenant, as of January 1, 1998, will have only one right: the right to appeal. For a small tenant, that's not a right, because they can't afford it. He's not appealing his own; he has got to appeal the total, for instance, of Yorkdale Shopping Centre. Effectively, what they've done in this bill is remove the right of the small tenant to ask for a reconsideration, obtain information or discuss their assessment with the assessor. That right no longer exists. The large tenants that are here, that form the component parts of this group, will appeal everything, because the only access to information is to appeal everything. So what's going to happen is that every Sears, every Loblaws, every Shoppers Drug Mart in this province is going to be appealed, there's no question. Rather than limit the number of appeals, with this bill you've effectively increased the number of appeals, because there is no alternative available.

The submission here is supported by the Metropolitan Toronto Board of Trade, and it's also supported by the

Canadian Property Tax Association. All we're really talking about here is tenant rights.

The Vice-Chair: We have about 12 minutes left. We can go by caucus, four minutes each caucus.

Mr Gerry Phillips (Scarborough-Agincourt): I have just one really quick question and then another. Does each of the tenants pay the same business occupancy tax rates right now?

Mr Walker: It depends. For instance, if I'm a department store, under the existing act I pay at 50%; if I'm a small tenant or franchisee like Shoppers Drug Mart, I would pay at 30%; if I'm a lawyer, I pay at 50%; if I'm a brewery tenant, I pay at 75%. The run the whole gamut.

Mr Phillips: I think you've got a good case, which is that each of the tenants is operating on the business proposition where, if assessment change takes place, they currently get notice, because they're paying business occupancy tax. You established a business relationship based on knowledge of a major part of your lease expenses, and this bill will substantively change that. As you point out there, it looks to me like in some cases well over half of your cost are property taxes; in Sudbury, it looks like 70% of them. So I think you have a legitimate case of the bill, perhaps inadvertently, catching you.

My question really is: Which specific option does your organization prefer? On page 16 in the blue brief, you propose an amendment. Is this your preferred option?

Mr Walker: Yes, Mr Phillips, it's the preferred option. The system is not based on lease rates. If you go back to the analogy where they valued the shopping centre, they don't use the actual leases. For instance, the Sears lease may be 20 years old. They use what they call "economic rents." If I don't have access to the assessor as an objective third party — the assessor has always been looked on by the tenants as an objective third party. We may disagree with him, but he has always been looked on as being objective. He's not involved in the process between the landlord and the tenant. Now the tenant has no right to go to the assessor and ask, "What is the basis they use to value my tenancy?"

The amendment we're suggesting is that we have the right to go and say to the assessor, "Tell me the particulars of how you valued my tenancy" — and only my tenancy; I'm not looking to look at the total plaza. If I want that information, if I'm dissatisfied enough and I can't get the assessor to agree to the reconsideration process, I will then go to the next step, appeal the whole thing, and disclosure will come in the court process.

The Vice-Chair: Mr Phillips, your time is up. I'm sorry.

Mr Gilles Pouliot (Lake Nipigon): If you're about to set up shops in most of the malls in urban centres or in the suburbs, beside the town clock you will have your meter, and I want to wish you well. Your future is unlimited indeed. I'm sure you could go public. I will be looking very closely for your first private placement.

This is all about money, there's no question about it. On the process side, it's fully acquiesced by every party that there will be upward of 500,000 appeals. So if we refer to the right to appeal, you grab a number indeed. It was unforeseen at the beginning, but this is the largest appeal endeavour ever undertaken in North America. You will have subclasses of appeal, in fact. You will have class appeals. Many players will be compelled to appeal.

The bottom line is that Bill 149 does not work in isolation. You have $1 billion being taken out vis-à-vis transfer payment. On your page 10 you cite that under Bill 149 taxes will increase, and you focus on the small tenants, not the main anchor but the subgroup, the other people who occupy the mall. When the assessment notice comes, the Association of Municipalities of Ontario is petitioning the government to allow more than 50% on the interim levy, based on the previous year's taxes, of course. The business occupancy tax will be a factor in the equation. There's $1 billion being taken out. So, mathematically, taxes will go up. There is no way out here. On top of it, you will have this kind of dilemma.

One of the options you propose is to put the brakes on, you say "a status quo." You realize things might be changed. Do you feel this bill needs more consideration, more dialogue, more options developed, or do you feel that under the veil of regulations we don't know where we're going two months before implementation?

Mr Zinner: Bill 149 addresses most issues. The two important issues it does not address are the reconsideration process for the tenants and the right to appeal their valuation within the total. All tenants, big, small, whether we're talking industrial or commercial, it really doesn't matter, any multitenanted properties — this is not just going to affect the retail sector; this is going to involve multitenanted industrial malls, because they're all valued on an income approach. If we are not allowed to view the assessor's records as to how our particular values were arrived at, we're all going to appeal the property, every single tenant. So instead of having one appeal, if there are 300 tenants, you'll have 300 appeals, because if the assessor is not going to allow us access, we will have no reconsideration process, which is supposed to take place, incidentally, in the first 90 days. We are supposed to be allowed to sit down with the assessor, view the records and only after that can we file an appeal. If we don't have access, we have no recourse other than appeal. That's going to clog up the courts, and we're going to have one court level, the ARB or whatever it's going to be named, in the 1998 tax year.

0930

Mr Bill Grimmett (Muskoka-Georgian Bay): Good morning. Subsection 53(1) of the Assessment Act currently indicates that every person employed by the Ministry of Finance etc or who has access to actual income and expense information on individual properties "who wilfully discloses or permits to be disclosed any such information...is guilty of an offence and on conviction is liable to a fine."

You've indicated in your brief that policy option 4 that you've put out would maintain confidentiality. Can you explain to our committee how a tenant could go to an assessor and satisfy themselves that they're being dealt

with fairly by their landlord while maintaining the confidentiality in the assessment process?

Mr Walker: Sure. It's simple, because he does it today. The little tenant, the big tenant, the medium-sized tenant, the commercial tenant, the industrial tenant, the Tim Hortons tenant goes to the assessor and says: "There has been a value put on my property. Can you tell me how you arrived at the value?" The assessor, today, says: "Yes. We arrived at an economic rent. We looked at the leases. We determined that your space should be leasing for $8 a square foot. We multiplied that by the number of square feet, we made some expense allowances and then we applied a capitalization rate. We came out to a figure." He says, "Thank you very much."

On January 1, 1998, he goes to the assessor, same person, and says: "Mr Assessor, I was here in January 1997, and you explained it to me. Now my property tax has gone up because the business tax has come on and has been included, not for any other reason. Could you explain to me how you valued my premises? That's my experience, and that's what I've done." "I'm sorry, I can't talk to you. You're not entitled to a reconsideration. You go to your landlord."

If I'm an 800-square-foot tenant in a 25,000-square-foot office building and I go to my landlord and say, "Could you explain this to me?" the guy is going to say: "Get lost. I've got too much to do and too many important things to do."

Under the amendment, what we're talking about is that we're only asking for the information and the reconsideration with respect to the tenant's portion. That's it. So I'm not going and asking for everybody else's portion; I'm asking for my portion. I'm asking for it because they value it on an economic rent as opposed to an actual rent.

Mr Thompson: Exactly. This bill does not change how the assessor will value that mall. He will value a mall the exact same way he did it before this bill. He'll take the individual tenants' rents and capitalize them. That information is still available to the tenant if the landlord wants him to have it. This act restricts it.

Mr Walker: He has always looked to the assessor as the objective third party, and quite frankly in the last — I won't say in the last 15 years, but I'll say in the last five years the Ministry of Finance has gone out of its way to facilitate and help the tenants.

The point that was raised about the increase in appeals, I can with certainty tell you right now that if my business is going to go public, if you give the tenants the right to reconsideration, I'm private again, because suddenly you're going to reduce the assessment appeals from the tenant portion. Historically one million or two million tenants' appeals were issued in Ontario. You're going to reduce the tenants' appeals by 95% to 100%. Now the tenant can attain the degree of satisfaction he wants and he can talk to the assessor. Supposing the assessor makes a mathematical error; he can correct it, and I feel a part of the process. You've shut the door, and I'm frustrated, and we're going to end up with more Metro Mall situations.

Mr Zinner: I just want to comment on valuation. Historically, they've determined a fair market rent based on the income and expense analysis the landlord provides them. They'll put it on a fair-market-rent curve. So that information, albeit it's confidential to that shopping centre, is a fair-market-rent curve based on all of the individual tenant leases. There is not a release of individual tenant leases; there's a release of that fair-market-rent curve. That is what we're looking to have released, the components.

The Vice-Chair: Thank you for your presentation.

MIRVISH PRODUCTIONS

The Vice-Chair: We will move on now to Mirvish Productions, David Mirvish. Good morning. You can begin when you're ready. You have a half-hour. You can use all or any part of that half-hour in your presentation, and anything left over will be distributed proportionately among the caucuses for questions. Could you please identify yourselves.

Mr David Mirvish: I'm David Mirvish from Mirvish Productions through Alexandra-Princess of Wales Theatre. This is Mark Blidner, who is with me to give me some advice if we get into technical questions, because, as you can imagine, putting on shows is my specialty, not taxes. I'll try to answer questions accurately, but I thought I might need a little help.

First of all, I'd like to say that I'm in support of what is being done for the theatre by this bill. It seems to me there's a recognition of what used to historically be a relationship between not-for-profit theatres and theatres that were commercial, which had a very long history. It has begun to become out of whack for various reasons. We've had an exceptional situation in the last 10 years, where two new theatres have either been renovated or built, and that is not the norm in the world of theatre, funnily enough. Toronto has an impression of theatre that is not the norm for the rest of the world but which has been very fortunate for all of us.

Historically, since the 1930s most theatres outside of New York or London are either owned by not-for-profit organizations or by municipalities and governments and are usually subsidized and are used by people in those communities to present successful Broadway shows that tour. In 1961, when the O'Keefe was built, it was thought that the Royal Alexandra Theatre would be torn down and that it would take the place of everything that was necessary to serve this community. By a quirk of fate, that didn't happen, and it left a commercial theatre in the city.

At that time, and always, going back many years, live theatre was never taxed at the same rate that movie houses or other commercial properties were. For 30 or 40 years, it had its own established rate that it was taxed at. People came to my father and said: "Ed, it's unfair. You're paying taxes and the government doesn't, and you have to compete with a place that's twice as big. Why don't we apply to remove the taxes?" My father always answered that the taxes were in a relationship that he could live

with, and he didn't have to live with committees. So he was glad, because he had his own business and he didn't have anyone telling him what he had to do with it; he'd rather pay taxes.

It was an interesting situation, and it went on that way for many years. I think in principle it was right. It was his badge, his way of saying, "I'm successful too," because everyone told him, "You can't make any money, Ed, in the theatre business," and when he bought it he promised to keep it as a theatre for five years, but if he didn't succeed, he'd be able to do what he wanted. All the other offers were to make it into parking lots at that time, because they knew something he didn't know: When you're closed, you know how much you lose every week; when you're open, there's no limit.

That was the history of the early days, and that's how theatre worked. It still works that way in many cities. If you were to go to Chicago and you had a great success in New York and you wanted a theatre and you were to rent the Auditorium Theatre, which is run by a not-for-profit organization, you wouldn't be paying taxes when you go to Chicago.

So there are two relationships one is looking at: the one that's between live theatre, both for-profit and not-for-profit, here in the city of Toronto, and then the relationship between Ontario and Toronto and its competitors outside, which I view as Boston, New York, Cleveland, Pittsburgh, to some extent Detroit, which I don't think is too much of a competitor, and Chicago. I'd just like to say a little bit about each, about these two different situations.

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When I built the Princess of Wales Theatre, I looked about me and I went on the experience of 30 years, that we'd been paying about $100,000 in taxes at the Royal Alexandra at that time, which was a 1,500-seat theatre. I then phoned the league of New York theatres and I said, "How much does the Colonial in Boston pay?" which is about 1,600 seats. They said, "It's hard to tell, because it's buried in an office building, but we believe the theatre component of it is about $60,000." The biggest theatres on Broadway are anywhere from $50,000 to $160,000. That's what they pay in New York. The rest of the road is mostly not-for-profit. I had a theatre in London, England, and at that time I was paying £27,000 for a 1,000-seat theatre, about $75,000 or $80,000.

I thought: "Okay, I'll build this theatre, and what is the maximum the government will tax me? If $160,000 is the biggest on the continent, they'll probably tax me $250,000." Then I got my tax bill, and my property and business tax came in at $1.275 million. I've spent the last five years dealing with this, and I'm about to come to the OMB. Who knows? Maybe we'll even solve it before we get there. They're no longer asking $1.275 million, and we are getting closer to the old historic relationships. But the government had no flexibility to deal with it, there was no separate category, and within the tax department they decided to do a mini-reassessment and change the mill rate. Is that what it's called, or the assessment rate?

Mr Mark Blidner: Reassessment.

Mr Mirvish: So what does it mean? Say we were to pay this larger tax. Well, there's been a big change in what has gone on. For one thing, there was a moment in the late 1980s when there were no shows to put into the theatres. The reason I ended up producing shows wasn't because I wanted to; it was because I had to. I couldn't get anything good enough to get the public to attend. We wanted to up the stakes on the quality; it also upped the stakes on my risk. I was now in a new business.

There is only a handful of really successful producers, but as they succeed, more and more people are being drawn in. It's rather wonderful, because there are also people being drawn in at every level, so Toronto is really a place where people can start and have new producers and new shows going on. In a funny way, the province has helped to facilitate it, not quite the way they expected, but by restoring the Elgin and the Winter Garden. It is a place that isn't controlled by me nor by Livent and where, because we have to plan far ahead and we are unsure of who would come to us and give us a run — I'd love to have someone take a risk in my building, but I haven't had many people come forward and say they're willing to do it. But because I fill up my building, on those odd occasions when a young producer does come, there's no place for him to go, and the Elgin and Winter Garden are sitting there providing that function.

If that historic relationship of the absolute amounts of money, however it's arrived at, is maintained, then we can afford to pay the taxes and still be competitive with what's going on outside us. When I say competitive, the question is, can we attract Disney to decide to make — if they have a success with Lion King, for example. When they were here with Beauty and the Beast, they were here for two years. If you had come by my theatre on a Wednesday or a Thursday afternoon, you would have seen between 10 and 15 buses parked there, people who had come from outside of Ontario, not just outside of Toronto. They brought hundreds of thousands of dollars and thousands of people into this city.

A study was done by the Ministry of Citizenship, Culture and Recreation when they were reconsidering an entertainment tax and its impact on commercial theatre back in November 1994. In a three-year period, they found that live theatre was paying roughly $1.674 billion in salaries and wages that were being taxed in this province, and that taxes at all levels of government, of about $681 million, were being generated. It sounds like we've got a great big industry here. I can tell you that it's a lot more fragile than these figures suggest.

But it is interesting that it is growing. In fact, there's a little company called Edge and Company out on Bronte Road, halfway between Hamilton and Toronto, that built seven sets for Broadway and all over the world this year, that never existed five years ago, and that built my Jane Eyre set. We have technical people who are absolutely superb, and we're developing more of them all the time. The sound boards today are very complicated to run a live theatre show. Every time we do a show, we get into the next generation of board and we train technicians who

never could do it before. Suddenly, we're exporting technicians, we're exporting artists. Ma-Anne Dionisio, who was my lead in Miss Saigon, is now sitting in London playing four performances of Saigon and two performances a week of Martin Guerre; she walks across the street from one theatre to the other.

Tourism: Here's a figure of $69 million in tourism, but figures don't make sense to me, quite honestly. Figures can mean anything. What I know is that in order for me to put a musical on, I have to have 150 to 200 people go to work every night, and I know that a lot of cabs drive up in front of the building and there are a lot more restaurants in my neighbourhood than there were five years ago. I know that I'm affecting thousands of jobs in hotels and people who are making beds. That's what I know.

Some people get confused. They think that because we have seats in live theatres and there are seats in movie houses, they're the same thing and should be treated the same for tax purposes. This is a mistake, and I'd like to try to explain the difference. A movie gets made and it's put in the can and sent all over the country and all over the continent at almost the same time; nobody has to go to your city to see a movie.

I'm going to have Antonio Gades on my stage tonight — if I'm lucky, because only half the set arrived yesterday from Madrid. But when he's here with his flamenco dance company and his 30 dancers, it means he's not in Madrid; it means this is the only place in the world that you can see Carmen in this way at this time, for the next three weeks.

When building a movie house, if you have this as your piece of land and you build the movie house, you put your screen here and you put your seats there and you have a few people working here. If you want to take the same piece of land — because that's what a multiplex piece of land would be — and put a live theatre in, you put a proscenium here and you have as many people working back here as you do here. You have 50 stagehands, if you're doing a musical, 26 musicians, a cast of 45, and now you've got 30 ushers here in the front, because you can't let people go down by themselves, and you have all sorts of merchandising services up here. You have 150 people working, and you have something for which people drive up to six hours, we've discovered. We can reach everyone within a six-hour drive range. To do that, we have to spend extraordinary amounts of money on advertising, and what we're really advertising is the province. Pittsburgh is exactly equidistant from Chicago, New York or Toronto, and we figure we can get them to make at least one trip here, and if they do, I think they're going to like it and come back.

What we're looking at is that we need a level playing field here between the not-for-profits and the for-profits. I think it's wonderful that this bill recognizes that for theatres under 1,000 seats, it's appropriate to protect those not-for-profit theatres because those are really training grounds for our actors.

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We also need a relationship that allows me to say to Disney: "If you come here, you're going to be treated as well as if you went to Chicago, and there are other reasons you should come here. We can do a job for you." What my deal with Disney was that I said, "I don't believe they're going to tax me $1.275 million. Every cent I get back, I'm going to give it back to you. If you want to gamble with me on Beauty and the Beast, come in and take the gamble." Basically, they took the gamble, and the government did reduce it to about $700,000 initially, so I paid on the basis of the $700,000, and it is coming down into a more appropriate range.

But I don't know that I'm going to get them back for Lion King. What it means is not that they won't bring Lion King here; that's not what will happen. They'll tour for eight weeks into O'Keefe Centre, with an all-American company that will take all the money out, and they'll go on to the next place, after they've sat for six months in Chicago in a theatre that isn't charging the same rents. Or they'll choose to come here, and make the people in Detroit and Cleveland and Chicago, for those first six months, bring their buses here. So the question is, which way do we want the buses to go? It's real simple.

I don't want to take up too much of your time. If there is time for questions, I'd certainly like to try to respond. As I say, I'm generally supportive of what — I'm not looking for the not-for-profits or for the bigger theatres to pay taxes; I'd just like to maintain what we always used to have, which was a historic relationship. It's hard to get back to the original.

The Vice-Chair: Thank you, Mr Mirvish. We have about four minutes per caucus, beginning with Mr Pouliot.

Mr Pouliot: When reading, Mr Mirvish, about how you got here, "unique" certainly applies. You represent a success story unlike any other, and we've all benefited. However, given the present situation and the focus on Bill 149, you cease being unique, and the government will say, "Thank heavens."

You've mentioned the flow of buses. It used to be, 10 years ago, that every opportunity was good to get out of Cincinnati or Cleveland and certainly Pittsburgh, especially on a rainy Monday night, but Toronto 20 years ago might not have been the desired destination; New York was more attractive to some. You're not asking the government to provide incentives, in other words, to say, "We can better sell our theatre, create jobs, bring outside dollars in to be spent in Ontario, by incentives." You want a fair playing field. You don't wish to be penalized.

Mr Mirvish: Yes, that's exactly it. And it's a dilemma, I know, because North York, for example, which has the Ford Theatre and has no taxes and runs commercial shows like I do, in a way is an anomaly that's a bit of a problem. But on the other hand, I don't know their business, and maybe they're supporting the smaller 1,000-seat house with that profit. I don't have a problem with them not paying taxes, or Hummingbird not, or Roy Thomson or Massey Hall, if the difference between paying taxes and not paying taxes is what it used to historically be, if it stays within that $250,000 range, and it used to be $150,000. But it's once it gets out of that range that I can't be competitive any more.

Mr Pouliot: So not only do you compete with other jurisdictions and that makes it more difficult —

Mr Mirvish: I compete locally and I compete internationally. It's a funny problem, because I then turn to the Elgin and the Winter Garden, which don't pay taxes, and I'm happy that they don't either, in a funny way, because they don't go to the government for grants either to run the Historical Board, and if they do make something out of that theatre, that goes back into that area.

Again, if we're paying $120,000 to $125,000 in the Royal Alex and we're paying $250,000 in the Princess of Wales, I can live with that and their not paying anything, and I can still compete for shows with them and I can still have a fighting chance. But if I have to pay $600,000 and they pay nothing, then I've got a problem. And under the present setup, the government has no way of doing that, of stopping an assessment person coming in and saying that we should be paying $1.2 million. That's what I think this bill gives them; it gives them at least the chance to create a level playing field.

Mr Grimmett: Thank you, Mr Mirvish, for attending today. I certainly congratulate you on the tremendous contribution your family has made to the Toronto economy.

I was fascinated by some of your comments about your competing jurisdictions in the United States. How is it that they're able to keep their taxes at that rate, do you know?

Mr Mirvish: Each of them has slightly different situations — it's fascinating — but they all are glomming on to the idea that having a vibrant live theatre community is a way of distinguishing their city from others. Even if they all have live theatre, whatever is on in live theatre is unique to that location. There will not be another time when they do four or five Beauty and the Beast companies. Disney learned from the last experience to not ever have more than three across all of North America. Whereas baseball, say, exists in 26 cities, something like a Beauty and the Beast or a Lion King will only exist in three.

In all those other cities, really the government has come in and given them money to build those theatres. In Chicago, which has a slightly different situation, they're getting a new theatre out of Livent. There was an article about it in the newspaper. It's a $32-million theatre, but Livent is only expected to supply $16 million of it. The government, through grants and in other ways, is giving all the rest of the money.

Not only do they not charge taxes in their not-for-profit situations — or where they do charge taxes, it's to recoup the $16 million they've given to subsidize the making of it — but they're all hungry for this type of activity as a way of selling their city.

Mr Ted Chudleigh (Halton North): Again, Mr Mirvish, thank you very much for attending. I'm sure with your opening tonight, you have other things to do.

You've referred to the tax as being a significant cost to your operations. I was wondering, what portion of your fixed overheads would municipality taxes represent?

Mr Mirvish: I've never looked at it that way, but it costs us about $35,000 in the Royal Alex to break even, covering all the ushers and everybody else, without counting the stagehands or the musicians to run the show. So $2,000 of that is taxes, if you're $100,000; it's $6,000 if — that's how we got to $35,000, because we're counting something like $6,000 at the moment from $100,000. In order to justify going up to $700,000, they took the Royal Alex from $100,000 up to $300,000, and then they said, "Now we're in proportion, so now we can ask the $700,000."

Mr Chudleigh: So it's very significant.

Mr Mirvish: It's pretty significant. It makes a difference. If my theatre is $6,000 more than the Elgin, guess where a show is going to go if there's a $6,000-a-week difference? If it's $2,000, they may not go anywhere else; there may be other mitigating services I can provide that would make my theatre more attractive. That's what the difference is that we're talking about. With Beauty and the Beast, it was $12,000 with $700,000. For $12,000 a week, Disney will think.

Mr Phillips: I thank you for being here too, and I just add my thanks to the family. You're Canadian icons. I really admire what your mother and father and you have done. There's no question that you have made a huge contribution to preserving and enhancing Metropolitan Toronto. We all owe you a debt of thanks.

Mr Mirvish: I have the feeling I'm in a room of theatre-goers.

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Mr Phillips: I was there last night, not your place, somewhere else, but we really do appreciate it.

I gather you're supportive of the provisions in the bill. I think you can rest assured that it's going through as it is. I'd just make the comment, just so you understand the political context, that what's happening here is that this is a government that has cut its support to the cultural community dramatically. What's happening here is that your taxes will be reduced, and that's very helpful and good for that community, but it will not cost the provincial government a cent; it's all coming from Metropolitan Toronto. I think it's obscene that we are adding 100% of social housing costs on to property taxes. It has nothing to do with you, Mr Mirvish. I'm just telling you the context here.

I can guarantee you that people in this city of Metropolitan Toronto are desperate for housing and now rely 100% on property taxes. The next economic downturn we are going to see anger like we've never seen before, because if you require help in those times, you're going to have to go to the council, and they'll be hard-pressed because of property taxes.

Many cultural groups have been thanking the government for doing what they're doing. I know there is only one taxpayer, but it's costing the province nothing. They have cut support for the cultural community dramatically, and now they're getting a pat on the back for cutting the revenue of Metropolitan Toronto at the very time when they are adding social assistance, child care and social

housing on to the property taxpayers. You can rest comfortably that the bill will pass — you shouldn't feel guilty about any of that — but within that context.

I guess my only question would be this. We have had — you call it the O'Keefe — I think they call it the Hummingbird now, and the North York Centre, Roy Thomson and Massey. They, because of this bill, where they currently don't pay taxes, will now be paying taxes. Perhaps you don't even want to comment on that, because I think you're just here to speak for your organization, but have you any advice for us on that?

Mr Mirvish: No. I think it's a complicated dilemma. I'm not advocating necessarily that they pay taxes. That's the irony of it. I think that they do provide other services, and all I want to do is be kept in the game. What I really think I'm asking is not for privilege or special treatment. I'm asking that what has historically existed be maintained, and which has now been taken out of balance because I built a new building and because I then did an extraordinary renovation of the Pantages, and in doing so, got penalized in a way for making the building operational again.

In other cities, for example in my experience with London, taxes are more related to the number of seats than what it actually costs to create a theatre. You can't build a theatre and ever sell it for its real value or for the value of what you paid for it.

When I built the theatre, all the experts said two things. They said, "David, build a skyscraper on top of it to help pay for this." That's how the Colonial is done in Boston. But I don't believe a theatre works that way. I believe a theatre is a destination and has to stand alone if you want it to really be an exciting building. The other thing they said is, "Don't build two balconies, because you can't charge as much money in the second balcony." I believe you need places where there are cheap seats so that nobody is disfranchised. I also believe that you should be closer to the stage, and that's just how I believe theatre works. So I built an impractical theatre on some levels.

I don't think there's an answer to the social housing one except that if we have a vibrant theatre business — I know that Charlie Cutts said there are 1,200 people who work in it, but according to this report of 1994, I think he's only referring to those four buildings he represents. There are between 4,000 and 5,000 people who work in live theatre in the Metro area, as I understand it, according to this other government study. I think we really generate money way beyond, even without government grants. I think grants are important for the opera, the ballet, some of the not-for-profits. We don't have higher education systems to train those people; this is our training ground. I think there is some relief in this bill and the government is being properly responded to. There's a recognition that there is some relief. That's really all that I can say about this.

The Vice-Chair: Thank you for your presentation, Mr Mirvish.

CHIEFS OF ONTARIO

The Vice-Chair: We will move now to the Chiefs of Ontario. Good morning. I'd like to welcome you to the standing committee. You have half an hour in which to make your presentation; if you do not use all of it, the remaining time will be split among the caucuses to ask questions. You can begin now. Could you identify yourselves, please?

Grand Chief Doug Maracle: I'll begin first by introducing myself. I'm Doug Maracle, grand chief of the Association of Iroquois and Allied Indians. I'll let my colleagues introduce themselves.

Chief Darlene Ritchie: I'm Darlene Ritchie, chief of Chippewas of Saugeen.

Mr Kim Fullerton: I'm Kim Fullerton; I represent Fort William First Nation, Michipicoten First Nation and Mississaugas of the New Credit.

Chief Margaret Penasse: My name is Chief Margaret Penasse from Nipissing First Nation.

Grand Chief Maracle: We're here to make the presentation on behalf of the Chiefs of Ontario.

First nations in Ontario are extremely concerned with a provision in Bill 149 that eliminates a longstanding tax exemption for certain off-reserve lands held by first nations in trust. The exemption under the current Assessment Act has been used by a few first nations for purposes such as economic development and the settlement of land claims. The potential revenue loss to the province and to municipalities is minimal. It is the position of first nations in Ontario that there is no reasonable policy justification for the elimination of the exemption.

(1) Chiefs of Ontario: Chiefs of Ontario is a non-profit corporation with a head office in the territory of the Mississaugas of New Credit and business offices in Toronto and London. The Chiefs of Ontario office provides coordination and facilitation services for the 134 first nations in Ontario. A complete list of the first nations is appended to the brief as appendix 1. All but eight of these first nations have band status under the federal Indian Act of 1985. Most of the bands also have a reserve land base under the Indian Act, in addition to their traditional treaty and aboriginal territories. The eight first nations without band status are involved in various negotiation processes designed to achieve such status.

The Chiefs of Ontario office acts pursuant to resolutions and declarations passed by chiefs' assemblies. There is an annual all-Ontario chiefs assembly in a first nation territory; as well, there are special assemblies during the year to deal with priorities as they arise. In between assemblies, the Chiefs of Ontario office is directed by an executive body known as the planning and priorities committee, PPC. The PPC is chaired by the Ontario regional chief and includes the following members: grand chief of the Nishnawbe-Aski Nation, grand chief of Treaty 3, grand chief of the Union of Ontario Indians and grand chief of the Association of Iroquois and Allied Indians, and a representative of the independent first nations.

The current Ontario regional chief is Tom Bressette from the first nation of Kettle and Stoney Point. He was elected at the all-Ontario chiefs conference of June 17 to 19 at Mattagami in Treaty 9. The regional chief sits on the executive of the Assembly of First Nations, the national representative body for first nations. The Chiefs of Ontario office provides secretariat services for the Ontario regional chief.

The most recent chiefs' assembly was a special assembly held in Thunder Bay just last week, from October 14 to 16. The relevant provisions from Bill 149 were discussed at the assembly. The chiefs were unanimous in expressing deep concern with these provisions.

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(2) General first nations position on taxation: In general, first nations take the position that they are immune from all forms of Canadian taxation, including federal, provincial and municipal levies. In Ontario, most first nations have signed treaties with the crown, some before Confederation and some after. Treaty 9, 1905-06 and 1929-30 and the Williams treaty of 1923 featured the participation of the province of Ontario. By the treaties, the first nations agreed to share the resource wealth of the province in exchange for some very meagre promises. Therefore, first nations have paid their taxes to Canada on an indefinite basis. If Canadian governments wish to impose taxes on first nations, then it will be necessary to reconsider the sharing of resources agreed to in the treaties.

It is clear that the first nations position on comprehensive tax immunity has not been fully accepted by Canadian governments. However, there has been partial acceptance. The broadest tax exemption is contained in section 87 of the Indian Act. On the provincial side, there is an exemption from sales tax in certain situations contained in subsection 7(l) of the Retail Sales Tax Act of 1990, regulation 31, and of course, there is the exemption for Indian trust lands contained in section 3 of the current Assessment Act. The proposal in Bill 149 to eliminate the modest exemption contained in the Assessment Act is alarming to first nations because it is a step backward from comprehensive tax immunity in Canada.

(3) Current Assessment Act: Paragraph 2 of section 3 of the current Assessment Act provides as follows:

"All real property in Ontario is liable to assessment and taxation, subject to the following exemptions from taxation:

"2. Property held in trust for a band or body of Indians."

The marginal note in the statute describes paragraph 2 as relating to Indian lands. It is noteworthy that section 3 of the act lists 23 separate categories of exemption, only one of which is directly beneficial to first nations, ie, paragraph 2. The categories of exemption include crown lands, churches, Boy Scout and Girl Guide properties, battle sites, and amusement rides.

The limited tax exemption contained in the Assessment Act is separate and distinct from the tax exemption which applies to reserve lands by virtue of section 87 of the federal Indian Act. In particular, clause 87(l)(a) exempts the interest of an Indian or a band in reserve lands or surrendered lands. While the federal provision exempts lands held by individuals, the Assessment Act exemption is restricted to holdings by a band or body of Indians. Thus there are two important and related qualifications to the provincial exemption: The land must be held in trust and it must be held by a first nation entity with a governmental nature. The exemption is designed to benefit first nations communities, as opposed to first nations individuals and private businesses.

(4) Utilization of the tax exemption: Even though the exemption for Indian lands has been in place for a long time and is well known in first nation circles, the utilization has been modest. Approximately 15 of the 134 first nations have actually acquired off-reserve trust properties that qualify for exemption under paragraph 2 of section 3 of the Assessment Act. In addition, approximately four organizations or entities controlled by first nations have also accessed the exemption. Based on data from the Ministry of Finance, it appears that there are at least five situations in Ontario where a first nation or first nation entity is eligible for the exemption but has not applied, appendix 2.

The exemption has been used for two principal purposes. First, trust lands have been acquired in furtherance of land claim settlements, often involving Ontario as well as Canada. Trust lands acquired in this way are usually earmarked for reserve designation under the Indian Act, in the fullness of time. Unfortunately, it often takes many years to achieve reserve designation after the final settlement of a land claim. The tax exemption for such properties helps to ensure that they will still be owned by a first nation when the Indian Act designation finally occurs.

The second principal purpose relates to community economic development. The Indian Act imposes many legal restrictions on first nations, some of which make it difficult to establish successful ventures on reserve. For example, the protection from some forms of credit security in section 89 of the Indian Act makes it difficult to obtain traditional forms of financing. Therefore, in some special situations, it may be prudent to acquire off-reserve property in trust in order to site a community economic development project. Section 3 of the Assessment Act provides a modest tax incentive for this kind of community enterprise. The enterprise may benefit not only the first nation, but also nearby non-aboriginal communities. As noted, the exemption is not open to individual entrepreneurs in order to give them a commercial advantage over competitors.

In practice, first nations pay taxes in lieu or levies to municipalities in spite of the tax exemption. This occurs in particular where the land held in trust is actually serviced by a municipality; for example, water and sewer hookup, garbage pickup and the like. Essentially, these services are paid for on a fee-for-service basis. In the case of on-reserve children attending off-reserve schools, provincial boards are fully compensated on a per student basis through tuition agreements. So, generally speaking, there is only a tax loss in relation to unserviced land.

According to officials from the Ministry of Municipal Affairs, who have met with Chiefs of Ontario representatives on this issue, the net tax loss attributable to the Indian lands exemption is approximately $125,000 per year. This is a very modest tax expenditure for worthy public policy objectives, ie, first nations economic development and the implementation of historic land claim settlements. To put this into perspective, the total value of the exemption for all 134 first nations, with a registered Indian population in the range of 175,000, is not even equivalent to the amount of potential tax that a single wealthy individual may avoid or defer through planning.

There is no evidence that the modest pattern of utilization by first nations is changing, and there is no evidence of abuse or fraud.

(5) Proposed change in Bill 149: Subsection 3(l) of Bill 149 eliminates several paragraphs from section 3 of the Assessment Act, including paragraph 2, "Property held in trust for a band or body of Indians." The replacement list of exemptions contained in subsection 3(l) of the bill does not include a revised version of the Indian trust land exemption. Therefore, it is eliminated, effective January 1, 1998, assuming the bill is passed according to the government schedule.

It is noteworthy that section 3 of the Assessment Act, as revised by Bill 149, will continue with a lengthy list of exemptions. These continuing exemptions are as follows: (1) crown lands, (2) cemeteries, (3) churches, (4) public educational institutions, (5) philanthropic organizations, (6) public hospitals, (7) highways, (8) Boy Scouts and Girl Guides, (9) municipal property — the list goes on — houses of refuge, charitable institutions, children's aid societies, scientific or literary institution, battle sites, exhibition buildings of companies, machinery, machinery for producing electric power, forestry purposes, mineral land and minerals, certain properties of telephone and telegraph companies, improvements for seniors and handicapped people, amusement rides, land of designated airport authorities, conservation land as defined in the regulations.

Subsection 3(2) of Bill 149 in fact adds the following category of exemption: "26. Eligible small theatres as defined in the regulations." Paragraphs 24 and 25 were added earlier this year pursuant to section 4 of An Act respecting the financing of local government, 1997, chapter 5. It is the position of first nations that there is no rational justification for the retention of this multitude of tax incentives and the exclusion of the lone incentive for Indian trust lands.

Section 71 of Bill 149 contains a grandparenting mechanism to partially protect exempt properties affected by the amendments and deletions to section 3 of the Assessment Act. This applies to Indian trust lands. Lands exempt for the entire 1997 tax year will continue to be protected so long as there is no change in use or ownership. This will be of assistance to first nations that held exempt properties on or about January 1, 1997. However, the first nations position, as expressed in this brief, is that the exemption contained in the current section 3 of the Assessment Act should simply be continued.

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(6) Lack of adequate consultation: In the Sparrow case, the Supreme Court of Canada confirmed that the crown owes to first nations a fiduciary duty of care, in particular in relation to land issues. This duty of care is constitutional in nature, as it is inherent in section 35 of the Constitution Act, 1982. Section 35 recognizes aboriginal and treaty rights. Again in Sparrow, the Supreme Court decided that a logical implication of the fiduciary duty is a legally binding obligation on the part of the crown to reasonably consult first nations in the instance of a proposed measure likely to affect significant first nations interest. Very recently, the highest court in Ontario, ie, the Ontario Court of Appeal, unanimously held that the fiduciary duty as laid out in Sparrow applies to the government of Ontario, and that was in the Perry case.

It is the position of first nations that the constitutional fiduciary duty of the province is activated by the relevant provision of Bill 149. The proposal is to eliminate a long-standing exemption in relation to Indian trust lands. This is a significant proposed infringement on Indian land rights. An implication, based on Sparrow and Perry, is that the province is under a legal obligation to consult in a reasonable way. It is submitted by first nations that there has not been a reasonable consultation.

Officials of the Ministry of Municipal Affairs contacted some first nations in February 1997 about the possibility of a change to paragraph 2 of section 3 of the Assessment Act. For various logistical reasons, a follow-up meeting did not take place. Officials from the same ministry sent a form letter to a restricted list of first nations on or about June 12, 1997. The list was restricted to some, but not all, of the first nations benefiting from the current exemption. The form letter proposed a meeting on June 19. However, this was an impractical suggestion, since the all-Ontario chiefs conference was being held in northern Ontario from June 17 to 19. On June 26 there was a general meeting between the first nations leadership and some Ontario cabinet ministers. The first nations leadership was led to believe that there was nothing imminent on the trust land exemption, and that in any event all options were open. On that very same day, June 26, Bill 149 was tabled, in the afternoon.

It is the position of first nations that this record of consultation would not pass constitutional scrutiny. Therefore, even if Bill 149 is passed in its current form, there is a significant risk that the elimination of the trust land exemption will be suspended by court order, assuming there is a court challenge.

(7) Provincial aboriginal economic development policy: The Ontario Native Affairs Secretariat, ONAS, published in early 1996 a document entitled the Aboriginal Policy Framework. While skeletal in nature and largely unimplemented 18 months later, the framework did promise the development of progressive policy in the sector of aboriginal economic development. The approach was consistent with the northern tour document published by the Conser-

vative Party before the last provincial election. On June 26, 1997, at a meeting between ministers and first nations leaders, the ONAS minister, the Honourable Charles Harnick, tabled a draft version of a document entitled Aboriginal Economic Development in Ontario: Consultation and Feedback Report, appendix 5. It is anticipated that a reasonable facsimile of this document will become the official policy of the government later in 1997.

Sections 2.2 and 2.2.1 on pages 4 and 5 of Aboriginal Economic Development in Ontario deal with the closely related topics of aboriginal economic development and the resolution of land claims. There is an admission in subsection 2.2 that the aboriginal people are among the province's poorest. The report concedes that in the past first nations have not benefited in a measurable way from economic expansions in Ontario. Therefore, there is a need for a strategic approach to first nations economic development. The budget speech of May 6, 1997, by Finance Minister Ernie Eves announced a lengthy and expensive list of tax incentives for business; however, there was not a single concrete measure directed at first nations.

Section 2.2.1 of Aboriginal Economic Development in Ontario notes that unresolved land claims lead to economic uncertainty, a negative for aboriginal and non-aboriginal people alike. Therefore, Ontario remains committed to the settlement of significant land claims. In particular, the government is committed to ensuring the settlement of claims is structured to result in increased economic development opportunities. It is pointed out that land base settlements will also stimulate economic development opportunities and benefits, promote partnerships and attract additional debt financing from commercial banks.

It is the submission of first nations that the Bill 149 elimination of the trust land exemption contradicts government policy as stated in the Aboriginal Economic Development in Ontario report. The elimination of the tax exemption will be a disincentive for the placement of economic development ventures off-reserve. Also, Bill 149 will make it more difficult to structure lasting land claim settlements. There is the scandalous prospect of claim settlement lands being put into trust and subsequently being lost because of unpaid property taxes. This is not a fanciful prospect. In Saskatchewan, areas set aside pursuant to treaty land entitlement settlements have been jeopardized by property tax liens.

Finally, again on the policy front, first nations would like to remind the committee that the government of Ontario has not withdrawn the Statement of Political Relationship, SPR, of 1991, and it's appendix 2. The SPR was recently referred to by the Ontario Court of Appeal in two cases: Perry and Lovelace. The SPR commits Ontario to a government-to-government relationship with first nations. There is also an acknowledgement of the inherent right of self-government protected by section 35 of the Constitution Act, 1982, subject to the appropriate role of the federal government. It is submitted by first nations that the unilateral elimination of the very modest tax exemption contained in the Assessment Act is not consistent with the values set out in the SPR.

(8) The relationship between first nations and Ontario: Over approximately a decade — up until 1995 — first nations and Ontario had gradually built up a respectful and businesslike relationship. There were many issues between the two levels of government, but a baseline of trust had been established. This relationship has been severely strained over the last couple of years by a change in approach within the government of Ontario. First nations have not changed. They continue to aspire to a respectful government-to-government relationship. A continued deterioration of the relationship will inevitably have negative effects for first nations, the province, and the non-aboriginal residents of Ontario.

The province has taken many provocative steps, for example: cancellation of the Williams treaty harvesting agreements, August 1995; killing of Dudley George at lpperwash, September 1995; cancellation of the interim enforcement policy, January 1995; Ministry of Natural Resources creation of conservation committee, with a budget of $45 million, under amended Game and Fish Act, without aboriginal representation; confiscation of 20% of the gross revenues from Casino Rama, contrary to prior agreement; purported imposition of fishing licences on first nations in the Bruce Peninsula, contrary to prior agreement; imposition of new trapping regime controlled by non-aboriginal trappers; punitive cutbacks in the Ministry of Natural Resources and the Ontario Native Affairs Secretariat.

Needless to say, the issues on this list are complicated and beyond the scope of this committee. It is notable that many of the issues are now being litigated, at great expense and inconvenience to first nations. Issues that used to be negotiated are now being litigated. That in itself is symptomatic of the strained relationship.

The elimination of the trust land exemption proposed by Bill 149 is about to become another issue for the list. Unless there is a change of heart, the Bill 149 provision will further strain the relationship between Ontario and first nations, perhaps to the breaking point. It is the position of first nations that this is a nonsensical move by Ontario, given that the province and municipalities have so little to gain by the removal of the exemption. As noted above, the tax exemption represents a net loss of approximately $125,000. When a loophole is being added for eligible small theatres, why is the province stooping to remove a modest tax incentive for people who are "among the province's poorest"? That's taken from the Aboriginal Economic Development in Ontario document.

(9) Implementation problems: If the elimination of the trust land exemption is allowed to stand, it is likely that the financial gain anticipated by the province of approximately $125,000 will be overwhelmed by implementation costs. A lengthy court challenge is likely. Probable grounds for such a challenge would be the consultation test under Sparrow and the prohibition of discrimination under section 15 of the Charter of Rights and Freedoms.

Given the surviving list of 25 exemptions or loopholes, it might prove difficult for the province to justify the

elimination of the lone aboriginal exemption as a matter of tax equity. The recent decision of the Ontario Court in the employment equity case indicates that the courts are willing to invalidate provincial actions that are discriminatory. A finding of racial discrimination would be an embarrassing development for the province.

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Quite apart from a major challenge to the Bill 149 amendment, there would be significant implementation problems at the local level. First nations with new trust lands might claim exemption under provisions of the Indian Act and challenge local assessments. First nations affected by the grandparenting provision in section 71 will undoubtedly challenge any future move to assess, on whatever grounds. When all these major and minor challenges are put together, it is obvious that the perceived windfall from the elimination of paragraph 2 of section 3 of the Assessment Act will be a bust.

(10) Positive first nation alternative: For all the reasons stated in this brief, it is the position of first nations that section 3 of Bill 149 should be amended in order to restore the existing trust land exemption of the Assessment Act. This approach is equitable, given the large number of exemptions that will be continued under the Assessment Act. It is also consistent with the published policy of the Ontario Native Affairs Secretariat in relation to aboriginal economic development and the settlement of land claims. Confirmation of the modest exemption for trust lands will be a sign from the province that it is interested in reconstructing the relationship with first nations.

If the exemption is continued, the stage may be set for a broader dialogue between first nations and Ontario on fiscal matters. The federal government, through the Department of Indian Affairs, is interested in establishing a fiscal relations table with first nations in Ontario. If the province is perceived to be acting in a positive way, there may some interest in inviting them to the table.

Thank you very much for the opportunity, committee. If we have time for questions, I'm sure we'll provide some answers.

The Vice-Chair: Thank you very much. We have about a minute per caucus.

Mr Grimmett: Given that we have only a minute, I wanted to perhaps clarify the position our government has on this issue. I want to thank the people for coming in today to provide their comments on the bill.

The Fair Municipal Finance Act (No. 2), Bill 149, intends to bring Ontario into line with all the provinces of Canada, which, as you're probably aware, have closed the loophole that exempted native-owned off-reserve lands for property taxes. This act creates tax equity between native-owned properties and other properties, in some cases businesses that might be competing with the properties in question. I note from your brief, on page 5, that a developing current practice between first nations and municipalities is that they pay taxes in lieu or levies to municipalities in spite of the tax exemption. So we see it as a codification of a developing relationship between the properties and the municipalities.

Mr Phillips: The only conclusion you can draw from the brief is that it's part of a systematic attack on the first nations. That's strong language, but to meet with the cabinet and be told that nothing was imminent, and then, the ultimate insult, that very day a bill is tabled in the House that is another attack on the first nations — you've outlined eight areas, and this is a ninth. It just seems to me that the government is using every opportunity to disadvantage the first nations. I have no idea why they would want to be provocative in a bill like this, to use a tax bill and hide something like this in it, when it seems to be one of the fundamental issues for the first nations that should be discussed and debated and negotiated with the first nations. I think you've done us a service of pulling together in one place a whole bunch of issues that I don't think the public is aware of, and this is the ninth provocative step the province has taken. I would hope the government would see that there's merit in setting this aside and having some meaningful dialogue on it before it's rammed through in another few weeks.

Mr Pouliot: Most distinguished chiefs and participants, this government is not a friend of first nations. Make no mistake about it. This is systematic and deliberate. You have become, in the negative, a target group. With this agenda, there is no human dimension. You've asked the question, "Why is it, since we are among the poorest in the province, that someone would remove the exemption for a mere $125,000?" It's meagre dollars, in the overall scheme. Well, you've answered your own question. It is because you are among the poorest. There's only one train leaving the station, and unless you have money, thugs and bullies will privilege the most fortunate.

The Vice-Chair: Mr Pouliot, your time is up.

Mr Pouliot: Keep fighting. This is a well-prepared document. There is no social justice. They only represent those who line their pockets. I'm convinced of that, and I've been here 13 years. Half of them are straight out of the Reform-a-Tories, and people like you —

The Vice-Chair: Mr Pouliot, your time is up. Thank you to the chiefs. Your input is —

Grand Chief Maracle: If I could have the opportunity of making two responses —

The Vice-Chair: Yes.

Grand Chief Maracle: First, in the context of trying to bring everybody in line, one of the severe differences, as we've referenced in here, is the issue of education. We are, it appears at this point, going to be compelled to pay tax on reserve lands held in trust outside reserve boundaries, and at the very same time we're not brought in line with education costs, when we have to pay $7,000 a head in addition to that and the general population, by the Education Act, is looking at $740 a year.

The Vice-Chair: Thank you very much.

CANADIAN TRANSIT CO

The Vice-Chair: The next delegation is the Ambassador Bridge, if Mr Mancini will come forward. You can begin when ready, Mr Mancini.

Mr Remo Mancini: Good morning, ladies and gentlemen. My name is Remo Mancini. I am here representing the Canadian Transit Co. I am pleased to have this opportunity to address members of the finance committee on Bill 149, dealing with the Fair Municipal Finance Act (No. 2). For the information of members attending this morning, the Canadian Transit Co would like you to know that we strongly endorse and support Bill 149.

Let me begin my presentation by telling you who we are. The Ambassador Bridge is North America's number one international border crossing and has a long and storied history. Approval for the Ambassador Bridge was granted by acts of both the Congress of the United States and Canada's Parliament. At the time of its completion in November 1929, the Ambassador Bridge was the longest suspension bridge in the world, exceeding by 100 feet the Philadelphia Camden Bridge, completed in 1926.

The Ambassador Bridge was named by Joseph Bower, the person credited with making the bridge a reality, who thought the name Detroit-Windsor International Bridge was too long and lacked emotional appeal. Bower wanted to "symbolize the visible expression of friendship of two peoples with like ideas and ideals."

The Ambassador Bridge is a privately owned, taxpaying facility.

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In 1992, the Ambassador Bridge surpassed the Peace Bridge, which connects Fort Erie, Ontario, and Buffalo, New York, as the busiest international commercial border crossing in North America. In 1996, more than 10 million vehicles traversed the Ambassador Bridge, of which nearly 2.5 million were commercial vehicles. It is not uncommon for 10,000 commercial vehicles per day to traverse the bridge. For your information, in 1996 total US-Canada commercial trade exceeded C$400 billion, of which 26% traversed the Ambassador Bridge.

We are very active in our community, and I'd like to tell you some of the things we do and that we're involved in. The Canadian Transit Co is a proud Canadian company. We are proud of our achievements, we are proud of our employees and we are proud of our community. We are a good corporate citizen and participate in a number of innovative activities.

In 1996 we initiated a "Colour the Bridge to your Future" essay contest in order to commemorate the repainting of the Ambassador Bridge structure, but more important, we wanted to use this opportunity to provide scholarships for education beyond high school. Our first prize winner was awarded $4,000, second prize $2,500, and third prize $ 1,000. We also donated $3,000 to the school of the first prize winner for computer equipment. This community activity was a phenomenal success. More than 1,800 essays from 64 Windsor-Essex county schools were written.

Over the last number of years, we have embraced the Windsor Symphony and have become a major corporate sponsor of the symphony. We consider the Windsor Symphony a community treasure.

We are also business partners with our neighbour, the University of Windsor, through a unique and innovative joint initiative at the Ambassador duty-free store. This opportunity provides the University of Windsor with cash payments, more than 500 badly needed parking spaces, and jobs for University of Windsor students. The university has no investment and no liability. On April 2, 1997, we announced a $100,000 pledge to the University of Windsor in support of the provincial government's Ontario student opportunity trust fund. As you know, members, the province of Ontario contributes $3 for every $1 pledged.

On July 31, 1997, the Ambassador duty-free store, in association with the North American Black Historical Museum, announced two annual scholarships for first-year University of Windsor students. These scholarships are to be called the Ronald W. Ianni academic achievement scholarship and will be presented at the annual North American Black Historical Museum gala dinner.

The above very briefly outlines our commitment to and involvement in our community.

I'd like to talk to you about the current situation. As a good corporate citizen, all we ask from our government is to be treated fairly. I would like to say to members of this committee that the current property tax regime in Ontario, as it relates to international border crossings, is the most unfair, ill-conceived property tax regime anywhere.

There are 13 bridges and one tunnel that connect Ontario to New York, Minnesota and Michigan. Let me take a moment of your time to explain how some of these bridges and the tunnel are currently assessed and taxed. I should let the committee know that I obtained the following information from a 1994 survey done by the Ogdensburg Bridge and Port Authority.

The Blue Water Bridge in Sarnia is governed by International Bridges Act passed in 1981, with the consent of all three parties, I might add, and in 1994 they made a payment in lieu of approximately $42,000.

The three bridges in Niagara Falls are also governed by the International Bridges Act passed in 1981, and in 1994 they made a payment of approximately $414,000.

Ogdensburg Bridge in Edwardsville refuses to pay, and the town cannot enforce. So that's an interesting law unto itself.

The International Bridge in Sault Ste Marie is currently exempt.

The Thousand Islands Bridge Authority makes voluntary payments, and in 1994 they paid approximately $54,000.

The Windsor-Detroit Tunnel is owned by the city of Windsor, so they pay $0 in property taxes.

The Peace Bridge in Fort Erie has a system whereby the bridge operators, the town of Fort Erie and the local assessment commissioner get together and agree on what should be paid, and in 1994 I'm told they paid $258,000.

In 1996, the Ambassador Bridge paid approximately $2.4 million in property and business taxes.

If you can believe it, we discovered, during a long, expensive and protracted appeal process, that no basic fun-

damental principles guide the current valuation process. In July 1995, we received a memo from one of our solicitors stating that they had been told "that responsible regional assessment offices value international crossings on an ad hoc basis without regard to a standardized methodology." This information was provided to our solicitor by Mr Frederick Jones of the Ministry of Finance in response to our freedom of information request.

You should know that we have been working with the ministry and exchanging information. We thank the departmental officials for the courtesy they have extended to the Canadian Transit Co. However, departmental officials need proper tools. They need good and fair legislation to implement. They need Bill 149.

In 1995, we approached the previous government. I was able to meet with the then parliamentary assistant to the Minister of Transportation, Mr George Dadamo. I would like to read into the record a letter written by Mr Dadamo as a result of our meeting. The letter is dated January 19, 1995, and is addressed to Mr Wayne Wood, property analyst in the Ministry of Finance. It states:

"Dear Mr Wood:

"I understand there are a number of international border crossings with facilities in the province of Ontario. I further understand there are several property tax regimes used for assessment and the collection of taxes payable.

"For example, the Windsor-Detroit tunnel pays zero in property taxes, as it is owned by the local municipality. The Blue Water Bridge in Sarnia and the three bridges at Niagara Palls are all covered by Bill 171, An Act Respecting Certain International Bridges, passed in 1981, that make property taxes payable negligible. The Peace Bridge in Fort Erie has a special arrangement with the local municipality that has absolutely nothing to do with their true assessment. This makes their property taxes negligible.

"On the other hand, the Ambassador Bridge in Windsor, which faces stiff competition from the border crossings mentioned in the above paragraph, is paying in excess of $25 million per year. This is on top of federal corporate tax and provincial corporate tax, which none of the other border crossings are required to pay.

"It does not take very long to realize that this whole system of property taxes is unfair and places the Ambassador Bridge at a distinct disadvantage. The Ambassador Bridge is very important to the Windsor-Detroit region and serves as the natural and historic gateway for trade, commerce, and tourism between the United States and Canada. with the passage of the free trade agreement and the North American free trade agreement, the Windsor-Detroit gateway has risen in importance; not only to our region, but to our national economy.

"I understand that you are undertaking a review of the property tax regimes as they are applied to international border crossings. I am encouraged by this and would sincerely hope that the end result of your work would be a proposal to bring the property taxes paid by the Ambassador Bridge in line with all the other border crossings in our province. A perfect vehicle to do this would be the inclusion of the Ambassador Bridge and other border crossings under Bill 171, An Act Respecting Certain International Bridges.

"Sincerely,

"George Dadamo,

"MPP, Windsor-Sandwich, and parliamentary assistant to Minister of Transportation."

Mr Dadamo got a reply to his letter. Ms Elizabeth Patterson, assistant deputy minister, responded to Mr Dadamo. As our presentation time is limited this morning, I will only quote the following statement, with respect to the appraisal services branch, and I'm quoting Ms Patterson: "[I]ts main concern is to ensure that market value assessment principles are uniformly and consistently applied to all international bridges."

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Members of the committee, the reality is that international crossings are not uniformly and consistently taxed; the opposite is true. I have already pointed out to you the array of special arrangements which exist, the results of which have created an indefensible property tax regime, without question a system imposing an unfair burden on the Canadian Transit Co.

On June 13, 1997, the Ministry of Municipal Affairs held a stakeholders workshop. I have, for your convenience, attached the final minutes of the workshop and the list of attendees, which is substantial. I would like to quote from page 8 of the minutes.

Question 4 states — and this question was put to the stakeholders — "Should bridges owned and operated by commercial enterprises and bridges owned and those operated by public authorities be assessed and taxed in the same way?"

"Mr Bennett stated that all should be treated the same.

"Mr Gandell stated that he wouldn't see it any differently.

"There appeared to be agreement that all bridges owned and operated by commercial enterprises and bridges owned and operated by public authorities be assessed and taxed in the same way. Therefore, the participants moved on to question 5."

I'd like to talk to you about competition at the border. Members of the committee, I believe it has become very clear to officials both in the Ministry of Finance and the Ministry of Municipal Affairs that competition in our industry does exist, and in some cases at a ferocious level. It goes without saying that the Peace Bridge in Fort Erie and the bridges in Niagara Falls compete head-to-head for both commercial and passenger traffic. Both of these authorities should be commended for their aggressive infrastructure improvements.

In southwestern Ontario, the Canadian Transit Co, the Windsor-Detroit Tunnel and the Blue Water Bridge are in serious competition. There are only four basic forms of traffic: commercial, passenger, local and long-distance.

The Canadian Transit Co has invested considerable sums in recent years to ensure that the international flow of long-distance and commercial traffic is processed in the most expedient manner possible. Competition for this

long-distance and commercial traffic is constant. Our principal competitor for long-distance and commercial traffic, the Blue Water Bridge, has greatly expanded their capacity. They recently opened a second span. They have modernized both their Canadian and US plazas. They are working diligently to ensure that Interstate 69 and Highway 402 form part of the NAFTA superhighway. They should be congratulated for their efforts. However, they should not be given an unearned advantage.

In the city of Windsor, the Canadian Transit Co and the Windsor-Detroit tunnel compete for auto traffic and short-haul commercial traffic. I can tell you that the city of Windsor is pretty serious about this, as they are the owners of the Canadian half of the tunnel. They have spent many millions of dollars completely rebuilding their Canadian plaza. They have and continue to employ an aggressive billboard advertising campaign, among many other initiatives.

We at the Canadian Transit Co find ourselves in the absurd situation of actually contributing funds to our competitor which they can then use to draw traffic away from our crossing. I wish to thank the Blue Water Bridge Authority for recently passing a resolution supporting the principle of equal and fair treatment of all border crossings with respect to property taxes.

In conclusion, the current property tax regime as it applies to international border crossings is clearly unacceptable, has no sound basis in policy, has created an uneven playing field, is without any pretence of fairness, has distorted fundamental economic principles, disregards private sector discipline, rewards the inefficient, punishes the efficient and gives an unearned advantage to some. Through Bill 149, the present government wishes to correct this grievous situation. I have read Bill 149 and am convinced that a system of fair property taxation can evolve from this legislation. I therefore, without equivocation, urge all of you to support and pass Bill 149 into law.

The Vice-Chair: Thank you, Mr Mancini. We have about three minutes per caucus, beginning with the Liberals.

Mr Phillips: I think what you probably mean is to pass the portions of Bill 149 that apply to you. We have some significant reservations about other parts of Bill 149. Can you give us some indication of what it means in practical terms if the bill passes? On page 4, just in gross terms, what is likely to happen in terms of what the Ambassador Bridge might pay?

Mr Mancini: I'm not sure what the gross numbers would be, because I do not believe there has been 100% consensus on how international border crossings are in fact to be assessed. It's a very complicated procedure. I know that the departmental officials are looking at it very seriously. What we would like in the end, no matter what the number is, is to have more of a balance. With the Ambassador Bridge, obviously, because we pay corporate taxes, we couldn't really judge whether or not there would be a savings or how big it would be, because of that factor. What we're looking for is a balance. We're looking for fairness, and we're looking for a system that would treat international border crossings in a very similar, if not equal, fashion.

Mr Phillips: What I'm trying to get at is that this is an unusual bill in that all of the financial impact is with municipalities. We've got some cultural groups coming in and getting some substantial reduction in taxes, but none of it, if you will, comes from provincial revenues. I'm just trying to anticipate what the impact on the city of Windsor and others will be. Is it a wash? Would you expect that the tunnel's taxes would go up and yours would go down, yours would stay the same and theirs would go up to your level or what?

Mr Mancini: I would expect that if there is equal treatment, what we pay and what the tunnel pays would be closer than zero and \$2.4 million or \$2.5 million; there would be a greater degree of balance. It could be a wash.

Mr Phillips: But you said you read it carefully. I'm just trying to get an idea of what the Ambassador Bridge would anticipate; that the \$2.4 million would go down?

Mr Mancini: We haven't really done any calculations, and we can't until we understand very clearly the methodology used for assessment. But we want a system that applies equally to the international crossings. That really is our goal. That is the goal for fairness and the goal for equity and being treated equally. I don't think the current situation can stand. I don't think we can continue to be put in a situation where we pay our competitor all this money and they pay zip.

Mr Phillips: I appreciate that.

Mr Pouliot: Mr Mancini, it's a renewed pleasure every time you have the opportunity, from our standpoint, to renew a friendship with a former colleague, a former Minister of Revenue with a full 15 years in the Legislative Assembly of Ontario.

Mr Mancini: That was 18 years.

Mr Pouliot: It was 18 years? My apologies. Time just flies. You're well placed under a constitutional monarchy. I will vote, as a member of the third party, the very same way on Bill 149 as you voted for 18 years. I will be consistent there.

Thank you for bringing out, no doubt, some variances. There was some discrepancy between one facility and another. I support more consistency, if you wish. I don't think we have much quarrel with that part of the bill. I know you have been a loyal soldier for a long, long time. In fact, you went beyond the call of duty in your former life, and you're to be commended. You reaped a just reward.

No matter what scenario, whether it's a wash or not, when we talk about changes, the taxes at the Ambassador Bridge cannot go any higher; they will go down. When they roll the dice in Windsor, no matter what comes out, your taxes are going down, right?

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Mr Mancini: I would hope for equity and fair treatment. If the taxes go down, it means we've been overpaying. That's not fair. We should not be charged more than what is fair. We should not be subjected to a system that is not equally applied to all.

Mr Pouliot: We're all fair people here, but sometimes it's a fast-moving world and it takes on some twist of fate; it does that. That's why they open the Exchange every morning; whether it's fair or not, you speculate. We can only go by past performance. There's a need to rectify what I think is a wrong, when someone refuses to pay and there doesn't seem to be a legal recourse, when someone has a nudge-nudge, wink-wink private arrangement with others, when the discrepancy between the high and the low is extraordinary, when no one can come up with criteria on volume of business being generated, when there is no factor, no substance to arrive at a philosophy. In fact, there is no philosophy; it's an arrangement that has been made over the years. It's not a very proud history in terms of administration and so on. I know you agonized over this when you were the Minister of Revenue and had to collect or not collect. You were front row centre.

The Vice-Chair: Mr Pouliot, your time is up. We will move to the government caucus now.

Mr Grimmett: Mr Mancini, thank you for coming in today with your presentation. Just to clarify some issues as to how the Bill 149 suggestions would differ from the current model, rather than having the actual bridge structure taxed, we're going to take control at the provincial government level. The Ministry of Municipal Affairs will have a payment prescribed for all bridges, regardless of whether they're publicly or privately owned, for the bridge structure itself, and the land and buildings that accompany that bridge structure would pay municipal property tax but not education tax. We're also going to have a test whereby we look at the American side and compare the cost so that we have equity that way as well.

We've had some other presenters in on this issue, some who had what I would call quasi-public ownership, and they have indicated that they feel their bridges are in some way unique. Before I had this experience in government, I had no idea that the bridges were owned in a different way in Ontario. For the life of me, I have difficulty understanding how any bridge can be unique. Surely all bridge operations would have to have some form of long-term financing.

Mr Mancini: That is correct. We are in the middle of infrastructure improvement. We believe it's absolutely necessary. We have to go to the private sector to prove that what we're doing is reasonable and that we'll be able to pay it back on time. We have to work with the local community to make sure that our infrastructure improvement is in sync with local improvements. All of us find ourselves in absolutely the same situation.

The Vice-Chair: Thank you very much, Mr Mancini. That concludes your presentation.

AIRPORT MANAGEMENT CONFERENCE OF ONTARIO

The Vice-Chair: We will now move to the Airport Management Conference of Ontario, Ms McAfee and Mr Dayment. You have 30 minutes in which to make your presentation. You can use all or part of it. If there's anything left over, we will distribute the remainder among the three caucuses for questions.

Mr Dave Dayment: Thank you for your time. Unfortunately, Ann McAfee couldn't join us this morning. She's stuck in Barrie in snow. She had a copy of the handout that I am going to read from, and we're going to fax one down today that she was going to present with us.

On behalf of the Airport Management Conference of Ontario, we bring you greetings from its member airports from around the province. The Airport Management Conference of Ontario was incorporated on January 14, 1986, and represents the interests of owners and operators of airports in Ontario.

We acknowledge your intent to hear briefs based on the content of Bill 149 and believe it is important for you to view this bill within the context of the government's commitment to the airport sector of Ontario's transportation system. To facilitate this, we offer this background information. I've mentioned what AMCO is. We're in the business of development and operation of airports not under the direct control of federal or provincial governments and strive to promote the safe and efficient operation of these airports. I know some members here may be familiar with us. I know some colleagues over here know AMCO very well.

It is the view of many that the federal government is responsible for airports. It certainly is true that the federal government's initiative laid the groundwork for Trans-Canada Airlines in the late 1920s and that the airports were required to adhere to federal legislation, but that is only part of the story. Overlooked is the fact that the government's development of Trans-Canada Airlines changed the way the government did business with municipalities and led to a long-term financial commitment by Ontario. Previously, the federal government had treated aerodromes as something the municipality was welcome to develop as long as the community could pay for it. The vision of an airport sector within Canada's transportation system changed that.

The government knew that municipalities could not afford the kind of system it envisioned. Its first assistance came from a 1929 order in council that provided grants to assist with the cost of lighting equipment and to provide, free of charge, one flashing beacon to each airport that made such a request.

When the 1930s brought the Depression, it became difficult for airports to keep up with the standards being set for them. The government assisted financially and sometimes assumed responsibility for special services.

In 1937 the Department of Transport agreed to split the costs of developing terminal airports equally with the provinces and municipalities. By the end of the Second World War, 149 new aerodromes had been built and 73 existing facilities had been expanded. The new aerodrome sites were chosen so that future commercial needs in the area would be served. This sent a strong signal that airports were considered a vital link in the economic development of communities.

As time went by and rising costs made the government's financial commitment to the airport sector increasingly difficult to meet, some of the provinces, Ontario being one, allocated funds for airport development operation and maintenance.

In 1968, Ontario entrenched financial support in the Airports Act, which clearly states the intent of the provincial government to have in place the legislation required for the long-term establishment, extension, improvement or maintenance of any airport in respect of which an agreement has been entered into under the act. The Airports Act is unequivocal evidence of Ontario's responsibility and commitment to the financial wellbeing of her airports.

In spite of the entrenchment of the government's commitment within the Airports Act, policy and legislation do not adequately reflect the value of the airport sector. The Municipal Act places airports under "Transportation, Other," along with municipal parking and street lighting.

AMCO believes that airports are entitled to the same status held by other main transportation categories, namely roads and transit, and will continue to work towards this change in legislation.

The Ministry of Transportation of Ontario's definition of "purpose" on page 5 of the minister's message of May 1996 omitted airports. The Ministry of Transportation "ensures that Ontario has a transportation system that allows people and goods to move about safely and efficiently. This means that our roads, bridges, buses and ferries must serve the needs of the people of Ontario." AMCO believes this definition must be amended to include airports.

Further in his message, the minister stated, "Above all, the budget in our business plan" — that being the Ontario government's — "demonstrates that the minister remains accountable to Ontarians for preserving the transportation system as an economic asset." AMCO believes that the government must remain accountable to Ontarians for preserving a transportation system that includes the airport sector as an economic asset.

Early on, Canada established a policy of giving a hand up. Somewhere along the line, the term "subsidy," with its negative connotation of "handout," was born. But from the time the vision of Trans-Canada Airlines was born, the federal and provincial governments knew they would have to assist municipalities. Now that the airport sector is in place, these governments must continue to pay their fair share.

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We understand and support the government's efforts to balance the budget, but we are concerned about the information on which the government bases its decisions. For instance, when the Who Does What committee released its report earlier this year, it stated: "So far, affected municipalities have responded well to the funding reductions and in fact many are now operating their airports more efficiently and effectively than they had previously with a provincial subsidy by raising additional revenues, reducing their costs and having more say in how the facility is run."

When the committee was asked to provide the research data that led to this conclusion, AMCO was told that a subjective comment made by a representative of the Ministry of Transportation was the basis of the report.

It is demeaning to the airport industry and to MTO staff to think that the removal of operating subsidies will make deficits go away, as if the men and women involved were lax in fulfilling their responsibilities. If consulted, AMCO would have provided the picture of an industry struggling for a place, lost revenue and an operation already operating in a deficit. MTO can provide you with a list of airports which still operate with a deficit, and it is almost the same as existed prior to the end of the subsidies. Why? Because federal regulations mean fixed costs are high, and few airports have revenue streams great enough to match them.

In an effort to reduce costs, services are being cut. Sometimes there are fewer hours of operation, other times there are fewer hours of snow removal available. Sometimes there is one less runway open. More serious, however, is while the airports cannot cut costs beyond their safety threshold, some municipalities are doing it without realizing it. Safety is being jeopardized by the elimination of knowledgeable, experienced upper-management staff in exchange for the work of lesser-paid employees in the same management position. A budget cut for sure is a safety hazard without a doubt.

A recent example is a report we received concerning an airport with an inexperienced manager who allowed bird feeders to be positioned on an airport and grass to grow through the apron days before the Canadian Forces Snowbirds were due to land.

Airport managers require specialized training, so much so that the international association of airport executives of Canada has been formed to promote standardized training for every airport manager in Canada. Airports need your help. The first thing you can do is give us time. We need time to examine the implications of Bill 149. We need time to give you detailed feedback so critical to relevant legislation. We need to know that this consultation process means as much to you as it does to us.

We would like you to know that some of your legislation runs contrary to the requirements of the federal guidelines for the safe operation of airports. For instance, Bill 106 encourages the agricultural use of airport lands as a means of reducing new property taxes for airports when in fact federal manual TP11-500 discourages farming the land on airports because of the wildlife problems it encourages.

In addition, taxing all airport land as recent legislation dictates increases the tax burden and the deficit of Ontario's airports. The Ministry of Finance legal department spent the better part of three months analysing the management contracts of two of our member airports to determine how Bill 106 would affect them. They're still trying to understand the ramifications of Bill 106 on our industry, and now suddenly it seems here is Bill 149.

We have to delay the third reading of Bill 149 until March 1998, as this will grant us time to make a more formal presentation in a detailed manner. During this time, we ask you to examine the Airports Act and the municipal airports subsidy agreements with us. It has just come to our attention that week that these subsidy agreements signed some 25 years ago were meant to be binding on not just the parties who signed them but on the respective successors and assignees. We need to make certain that the airports that signed these agreements and the legislators who rescinded them are not in violation of Ontario law. The end result of this examination and discussions should be the basis of a provincial airports policy. It's long overdue.

We ask you to acknowledge that the men and women of the airport sector of Ontario's transportation system are dedicated to attaining and maintaining balanced budgets, and this government has a responsibility to educate itself concerning the industry-specific budgetary challenges that face us. We ask you to understand, to protect and preserve the vital link that airports provide to the life and livelihood of the people in this province in terms of both financial contributions and economic development. We ask that you ensure the principles of the Common Sense Revolution make sense within a $1-billion transportation industry that is not acknowledged by this government's definition of the transportation system nor in the municipal financial reporting system.

We ask you to take the high moral road and return a portion of what is taken from the industry back to the communities which generated it. A portion of the aviation fuel tax collected in this province would provide the necessary funds for the airport sector to maintain its level of service and its value as an economic asset to the people of this province.

The Airport Management Conference of Ontario grew from the vision of a group of men and women who believed the interests of the owners and operators of Ontario's airports not under the direct control of the federal or provincial government must be represented in the forums where change occurs. AMCO recognizes government's willingness to tackle the difficult issues that form the basis of renewal and further, the courage it takes to topple structures and redefine boundaries to reflect the life and times of the 20th century.

Times have changed and the vision must keep up with it. We need leadership that sees the big picture and develops the partnerships to get the job done. Where there is a vision, there is a viable financial solution. AMCO is part of that solution. We eagerly await your reply to the requests that we have made, and I thank you for your time and consideration.

The Vice-Chair: We have six minutes per caucus, beginning with the government party.

Mr Grimmett: Thank you for attending this morning. Is the snow really heavy up north?

Mr Dayment: I'm from the city here myself, but Ann McAfee was going to join me. She called and said she wished to attend today but thought she'd better not. There was about four or five inches, and ice. You're from Parry Sound?

Mr Grimmett: A little south of there, Muskoka.

Mr Dayment: My boat is still floating up there. I'm hoping to get it out one of these days.

Mr Grimmett: Don't take it out yet, because we may still get some warm weather.

Mr Dayment: I hope so.

Mr Phillips: I'd take it out.

Mr Grimmett: You have to live up there and ride it around in November. That's the best time to go boating.

I listened carefully to your comments. I'm sure many of your concerns are valid and I have noted them. Is there an assessment-related issue here?

Mr Dayment: There is the potential for different assessments at different sites.

Mr Grimmett: Some airports in Ontario would be municipally owned, and they would not be subject to municipal taxation.

Mr Dayment: We have a letter from the province that says the current situation may not change, but each airport will be taken on a site-by-site basis and that situation may change if the ownership or the operator of the airport changes.

Mr Grimmett: Some are privately owned. They would pay taxation based on assessment presumably for industrial or commercial.

Mr Dayment: And do now.

Mr Grimmett: Right, and some would be unique, such as the Pearson airport, where they have a unique relationship.

Mr Dayment: Yes.

Mr Grimmett: Probably payments in lieu paid by the new authority to the municipality.

Mr Dayment: Yes. Our membership, again, is made up of airports that are not provincially or federally owned, and our membership airports are from Dryden, Red Lake, down through Geraldton, to Pembroke, to Kingston and back through southern Ontario to Goderich.

Mr Grimmett: Some of them are municipally owned?

Mr Dayment: Some of them are.

Mr Grimmett: You made some comments about the remarks by I think it was someone from the municipal affairs ministry. I can't really help you with those comments except to say that in the area that I represent, the Muskoka airport has recently been taken over by the district government, and they did it for the very reasons that were stated, to get more control. They were quite prepared to deal with the overhead costs, and they felt that they could promote more economic development when they were in control. There was an existing subsidy from the federal government, which the district feels they can reduce and which they're quite prepared to take on as a district subsidy, if you will, until they are able to reduce it.

I wonder if perhaps in the context of Bill 149 you could focus on the assessment issues and comment on how these smaller airports that you represent might remain competitive given the different patchwork of assessment that exists.

Mr Dayment: I know Muskoka is now a member of our association. Before it was not, because it was a Ministry of Transport airport. You're obviously closer to that situation than I, but if the federal government could seem to operate it, I don't know if the municipality would have taken it over or set up an airport commission.

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Some of our concerns from member airports are the changes in — certain areas are taxed already, commercial areas on an airport, business tax, which is changing, but now they're saying the entire facility with dual zoning or dual taxation some places. For instance, if you grow corn in one area of an airport, you can reduce the tax to 25% of what it might be somewhere else instead of a commercial taxation. We're afraid the municipality is going to look at that and have to pay it and say: "Here's how we can reduce that. Let's put this in here, reduce this down to 25% of what it would be if it was zoned differently." By doing that alone, we may be jeopardizing the safety and operation of the airport by looking for deer to come in, birds and that sort of thing. I think the increased tax burden, if it changes, and I'm not certain — we have talked to Bob Caines in the ministry about assessment and how it may change. Some of the airports are owned by municipalities but operated by private companies under contract. That may change how the airport is looked at as a commercial entity and not an airport or transportation link.

I guess what we're hoping to get is a uniform thing for airports across the system. I hear comments about it. What we're trying to do also is get it linked into airports as part of the transportation definition.

Mr Grimmett: You're going to provide us with a written brief on this?

Mr Dayment: Yes. I apologize. Ann was going to bring them down. She has them, so I'm going to fax a copy down this afternoon.

Mr Grimmett: I look forward to receiving it and passing it on to the appropriate parties.

Mr Dayment: I appreciate your time.

Mr Phillips: Your suggestion to delay the bill is probably not practical. What we have said in the Liberal caucus is we have significant problems with the bill, but the bill has to get passed to allow the system to — this thing kicks in on January 1, 1998. We're less than three months away, about 10 weeks away from this thing starting. What you do is point out what I think is going to be the reality of the bill. I don't even think it has been well thought through. I think there are some enormous unforeseen problems, and yours will be simply one of them. I'm sympathetic, but the fact is that whatever changes are going to be made to this bill have got to be in by October 28 at 5 o'clock, so that's when the doors close and the train leaves.

Mr Dayment: The plane.

Mr Phillips: The plane leaves, that's right. Actually liftoff will be a little later, but all passengers must be on board at 5 o'clock on October 28. I feel bad about that, because I think you have raised some legitimate worries, unforeseen consequences of the bill. I appreciate your comments. Recognizing that that's the reality, as they say, that whatever changes you can propose we have to see by 5 o'clock — not only that, more than that, there has to be an amendment proposed by the government or the opposition by 5 o'clock next October 28 — if there was something that might at least buy you some breathing time until these issues get resolved, we'd certainly welcome any suggestions you've got.

I guess my comment is it's 1159 and 30 seconds. It will not be enough even to have your comments to us by next Tuesday; any amendments that are going to be proposed have to be tabled by 5 o'clock next Tuesday. Tragically, I think you, we, are running out of time on it, but I appreciate your pointing out some of the real practical problems. As you point out, growing corn a few feet from the runway is probably going to attract a few vultures to eat the corn and the vultures can get in the —

Mr Dayment: We have an ongoing concern with the deer population on airports as we speak. That's just something that goes to feed the problem.

Mr Phillips: Literally.

Mr Dayment: We're working with the Ministry of Natural Resources on that. I'm the vice-president of AMCO this year, and I'm getting input from some of our members. Some of the operations are different. Some are under the works department, some are going to be under economic development, some are private, but some of the feedback seems to stem from the same thing, that airports seem to have been left over there as someone else's problem for a long time. They blame Ottawa, I guess, for a lot of it.

Mr Pouliot: A renewed pleasure indeed. I'm sorry to hear that precipitation, a snowstorm, has hit Barrie. It's in the snow belt. I can relate to having to cancel meetings sometimes at the last minute by virtue of weather.

Vultures do not stop at cornfields, I can assure you. In fact, in a political sense, they won't hesitate to pick the carcass clean. I can attest to that, I can assure you.

Your lot, your situation, your presentation, varies a great deal from, in its extreme, Pearson International. Then you have the regional airport, then you have some municipal airports, and then you have the privately owned. A good case can be made for every one of them. Your dilemma is that the government has decreed that the amendments must be in shortly, by October 28.

Mr Dayment: Yes.

Mr Pouliot: Then they will do their clause-by-clause, but — there's only you and I here; we're not going to share this with other people — this is a fait accompli. They might change one or two things, because we believe that there has been a penetration of their philosophy on farm assessment. It is so blatant, so obvious that errors of omission abound, and we sense that there is a commitment to look at this, and you would prefer the status quo. You want more time to come up with your proposal.

My question is, do you have the facility? Are you able to come up with amendments that we could channel? It's highly unlikely that they will wish to pay too much attention to them, but we can — with the Liberals, on many,

many subjects, we're not that far apart on many subject matters. In fact, I'll share another secret with you: We're looking forward to the next election, and they know they must get a majority — but that's political — otherwise, it will be done very, very quickly, I can assure you.

If you cannot give us the amendment, we hope that the government will listen. You're not that big an entity in the overall scheme, but for yourself, that's all that matters, and what you have presented is most commonsensical, but sometimes it comes out in the wash and you get away from here and say: "Have I made my point clear? Are they really listening? All I saw was a lot of papers all over." Your point is well taken. Your situation is not like the others, and it seemed that in the drafting, the intent and spirit, they forgot about you. You're coming out as a bagatelle, as the tombola that's about to leave town, a circus for the less fortunate, the small time. We'll make sure that your voice is heard. I thank you very kindly for taking the time to be with us.

The Vice-Chair: That concludes the time. Thank you for appearing, Mr Dayment.

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TORONTO ARTS COUNCIL

The Vice-Chair: We will now move on to the Toronto Arts Council presentation, Ann Bermonte. I wonder if the two of you could identify yourselves, please. You have 30 minutes in which to make your presentation. You can use all or part of it. If there is any time left over after you make the presentation, we will go into a rotation of questions among the three party caucuses.

Ms Ann Bermonte: Thank you. I'm Ann Bermonte. I'm the associate director of the Toronto Arts Council. I'm pleased to be addressing you today. I am joined by Janis Barlow, an independent theatre consultant, who will be speaking to you specifically about the act and its impact on live theatres.

Bill 149, the Fair Municipal Finance Act (No. 2), has come a long way in addressing a number of concerns I raised with your committee earlier this year regarding Bill 106. You are to be congratulated on the provisions in the act affecting the live theatre sector. As I'm sure you've heard from my colleagues in the theatre community who addressed the committee earlier this week, we recognize this as a significant step forward and are very pleased that the considerable economic and cultural impact of live theatres will be encouraged in the future.

Today I am not going to itemize the reams of economic statistics that I'm sure you've heard many times before, but if you haven't, I'd be pleased to. However, I am pleased to provide you with a brochure entitled Culture is the Business of Cities, produced by the Toronto Arts Council and sponsored by Toronto Life and Random House, which creatively captures and communicates the excitement and economic impact of our arts and culture sector. I am also providing you with a copy of Spreading the Word, a report summarizing the findings of a symposium on Culture and the Civic Society cosponsored by Toronto Arts Council and Metro Parks and Culture this September, which involved representatives from other cultural centres such as London, England, Sydney, Australia, Montreal, New York and Paris and looked at ways the new city of Toronto can continue to realize the arts and culture community's potential and role as an economic driver, a contributor to our high quality of life and a leading-edge employer. I believe Rosemarie distributed copies of those to you. If you would like additional copies, you could always contact me at the Toronto Arts Council. We'd be pleased to make them available to you.

Instead, I'm here today because I wish to use this opportunity to point out an anomaly that is still contained in the act and contradicts the spirit, if not the intent, of the amendments to Bill 106. Unfortunately, the vision which informs the act's provisions for live theatres is not extended to the rest of the non-profit arts community. Non-profit art galleries, rehearsal studios, production facilities and arts offices in which hundreds of theatre, visual arts, dance, music, film and special events are produced are also key to the economic development of cities and to the success of our arts and culture sector as a local, provincial and national economic driver.

Nevertheless, the Fair Municipal Finance Act (No. 2) offers no commitments to these organizations, which remain extremely vulnerable to large tax increases, tax increases which most of them will not be able to survive. Since most of these groups over the past two years have had to absorb cuts in their grants from the Ontario Arts Council and the Ministry of Citizenship, Culture and Recreation ranging from 30% to 100%, their inability to pay increased property taxes is exacerbated.

In order to redress this anomaly and to provide comfort to a vulnerable, yet vital, sector of our arts and culture community I recommend that you expand the regulations defining "residential property class," which currently includes golf courses, ski hills and land owned and occupied by non-profit service organizations, non-profit private clubs or non-profit recreational sports clubs, to include non-profit arts organizations.

This amendment is straightforward to implement and is easily justifiable, given the fact that it maintains the status quo, as currently all non-profit arts organizations are exempt from paying the business occupancy tax and, if they pay property taxes, are taxed at the residential mill rate.

In addition, this amendment would remove the uncertainty requiring charities to seek discretion from municipalities for rebates for the purposes of giving them tax relief from taxes on property they occupy as defined in section 442.1 of the Municipal Act. Under the residential property class, non-profit arts organizations would be exempt from this requirement. Addressing this issue by expanding the definition of residential property class saves time, money, confusion and provides non-profit organizations, whether or not they also have charitable status, with a clear definition of how the new act applies to them.

Although the above recommendation represents a minor modification to the act, in my opinion it will have a tre-

mendous impact on ensuring and encouraging the viability of the arts in Ontario.

Once again, on behalf of the Toronto Arts Council, I thank you for listening to me and hope that you will once again see value in the advice I have offered today.

Ms Janis Barlow: Mr Chairman, members of the committee, thank you for giving me the opportunity to speak to you today. My name is Janis Barlow. I am an independent arts management consultant who specializes in theatre. Toronto has been my home base since 1978.

In 1979, while on the board of the Toronto Theatre Alliance, I was one of three people who invented the phrase, "Toronto is the third-largest producer of live theatre in the English-speaking world," and then did the research in 1981 to prove it. It's a phrase that seems to have caught on.

I was the project manager on the Elgin and Winter Garden Theatre restoration in the 1980s and I have consulted extensively throughout Ontario and in the United States. Most recently, I have done management reviews for Toronto's Factory Theatre and the city of Toronto's 12 Alexander Street project. I currently do not represent any theatre clients in Ontario.

I am here to offer congratulations and gratitude for Bill 149 and its impact on the smaller live theatres in Ontario. The news of the initiative to exempt theatres under 1,000 seats from property taxes has been met with relief and appreciation from across the sector. The theatre sector is, on the whole, highly motivated and resilient, but it is very much in need of some good news, news which represents jobs and opportunities in a labour-intensive industry.

While the smaller theatres of the province are a training ground for larger commercial cultural industries, they are also vital places of non-denominational public assembly. Theatres, together with libraries, museums and galleries, complete the cultural infrastructure which characterize communities across this province. Like parks and community sporting facilities, they are public services which are non-commercial in nature.

In Toronto, the theatre industry is a unique attraction and socioeconomic driver for the city. It has always seemed odd to me that not-for-profit performing arts facilities were taxed in Ontario and property-tax-exempt in Alberta, Quebec and throughout the United States. Also surprising is the fact that Canada provides, through all levels of government, less direct and indirect support to the cultural sector than the United States, France, or Great Britain. The theatre industry offers tremendous value and return on the investment. Why make it harder to do business in Ontario?

In the past, the application of property taxes has made for an inequitable and unfair tax system even among the not-for-profit facilities, where tax assessments have ranged between $41 per seat capacity per year at Theatre Passe Muraille to $129 per seat per year at Young People's Theatre Centre. Then there are the facilities where taxes are forgiven, like Massey Hall and Roy Thomson Hall, where the assessments range from $17 per seat per year to $405 per seat.

The not-for-profit and commercial sectors of the theatre industry are part of an ecosystem. They share resources and pursue different goals. The goals of the not-for-profit organization have to do with freedom of artistic expression and development, and public access to the arts; the goal of the commercial producer, of course, is to give a work of art or entertainment a long and hopefully profitable life. The commercial theatre sector in Toronto is relatively small and new, but it is a labour-intensive, renewable resource with tremendous growth and export potential. It is already a multi-billion dollar business.

The commercial theatre of Toronto is a high-risk sector that has never asked for, or received, direct government subsidy. The entire theatre industry in Ontario recognizes the potential of this sector and has always endorsed property tax relief across the boards for the theatres of Toronto.

The potential pitfall of Bill 149 stems from its good intentions to level the playing field for the commercial theatre in Toronto and offer some relief for a small handful of overtaxed commercial facility owners. Unfortunately, the bill threatens the operations of several publicly owned facilities. It may be complicated to administer and in the end risk being penny wise and pound foolish.

At the risk of being accused of gaining an inch and asking for a mile, may I suggest that you consider extending the property tax exemption to all Toronto theatres with seating capacities under 3,200 seats? It is the same simple formula, which is consistent with the entertainment sales tax exemption and applied for the same reasons. The blanket exemption:

Captures the few theatres which are overtaxed now.

Maintains the status quo for Toronto's large not-for-profit facilities.

Represents an investment toward industry growth, but it's not a subsidy.

It allows our theatres to be competitive with the vast majority of competing American theatres, which are property-tax-exempt, like Shea's Buffalo, Playhouse Square in Cleveland, CAPA in Columbus, which are directly competitive with this market, not to mention the historic theatres which are owned by commercial operators.

It helps to equal the field and stabilize the industry in Toronto.

It provides an incentive for the development of sorely needed small and mid-sized commercial facilities, to create a better balance of facilities in this city.

It increases jobs, productions, ticket sales and tax revenue from other sources.

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The exemption would permit the commercial operators to bid more competitively for foreign productions, invest more in research and development of their own productions, develop product for export and offer productions at competitive ticket prices for the theatre-goers of Ontario and visitors to the city, at least 40% of whom cite theatre as one of the reasons they come to Toronto.

It is a simple solution which will result in a relatively modest loss of property tax revenue in the immediate future but enormous long-term gains in economic impact.

More theatre activity in this city has only positive consequences for the economy and quality of life of the city and the province. A review mechanism in, say, five years' time would undoubtedly demonstrate favourable results.

Once again, I thank you for the opportunity to offer thanks and a few thoughts on Bill 149.

The Vice-Chair: Thank you. We have six minutes per caucus remaining for questions, beginning with Mr Phillips.

Mr Phillips: Thank you for the presentation. We've heard from quite a few different groups and we appreciate the comments. This is an interesting issue for us, because the provincial government has decided to dramatically cut its support for the cultural community over the last two years. We heard from a group of theatres that their support had been cut by $2.5 million. When the province is committing its own money, it's slashing. What we're talking about here is the province ordering municipalities to take in less money. I realize it's all one taxpayer, but the province has spoken with its money by slashing it and now says, "Municipalities, we're ordering you to cut taxes on the cultural community." That's interesting and it's relatively painless, but municipalities will now get less taxes, so they're faced with two choices: cut policing or fire or social services, or increase taxes on the rest of the properties.

The reason I point that out is because many groups have been in here patting the provincial government on the back, saying, "Thank you, thank you, thank you." I just remind us that you should be going and thanking the city of Toronto council, because they're going to have to cope with that much less revenue.

That may be really good public policy. I'm very supportive of the cultural community. Not only does it do a fabulous job in developing culture, but I think it is also a terrific economic engine. There are lots of bonuses. But when you are the new city of Toronto council next year, all social housing is now on property taxes. I was at a fund-raising event last night for the Fred Victor Mission. actually at the theatre, Second City. The shelter for women that they just opened is 100% filled right now, every single night. We're just on the tip of some significant problems in social housing.

Now, you're here to speak on behalf of your group, and I don't want to equate one with the other. I'm just saying that as we approve these bills, the consequence is less revenue for municipal governments at the same time as 100% of social housing is being added on them, against, I might add, all the advice. Any government likes people to come in and pat them on the back, as you're doing. I just think it's important that we clarify what is really happening here.

In my opinion, you make a good point, that there is some unforeseen fallout of this as well, which is that some of our community theatres, Hummingbird, Massey, Roy Thomson and North York Performing Arts, are suddenly going to be hit, I gather, with some property taxes, just at a time when at least two of those organizations have worked their way through some challenges over the last decade and have emerged quite strong.

I guess that's more a comment than anything else. I appreciate your advice on it. I think there's a lot of concern around what I call the unforeseen circumstances, and you provide some good advice. I wanted to at least get my view on the record with you. As you're high-fiving Mike Harris for doing this, recognize that the bill is going somewhere else. That's my comment. I don't know whether you can provide any response to that.

Ms Bermonte: Very quickly, I'd like to point out that one of the shocking pieces of information that we learned at the symposium in September is that the city of Montreal spends $72 million on arts culture and heritage. The city of Toronto spends $24 million. The city of Sydney spends $107 million, the city of New York spends $128 million, and the city of London spends $495 million. I think we all agree that the city of Toronto does have some equity to build up there.

We're also working in a vacuum of information. We need to look at, what is AVA going to mean for the city of Toronto? Is it going to balance off, or will it mean a little more money into the city's coffers that would allow them to absorb this? We're estimating it would be somewhere between $1 million and $2 million — it's not significant — if indeed you were to look at and consider the proposal that Janis Barlow has recommended around making the exemption based on 3,200 seats rather than 1,000. We're not talking about a whole lot of money.

But I do understand your point and I do agree with it, and I did make a point of identifying that indeed what the government is giving with one hand they are taking away with another.

Mr Pouliot: My contribution, with respect, Ms Barlow is very humble. I'm one of the millions of people who provided you with the inspiration to invent the phrase. It has indeed been a success story, and there's a need to encourage.

Arts and culture need not come to any committee, be it federal, provincial or municipal, with cap in hand and say, "Don't forget me," or "Me too." The contribution in terms of hard, cold dollars — you did mention some 40% by survey, but even if it were a smaller percentage, we all know the multiplier. We all know that we benefit greatly as individuals and we all know of some others who benefit financially because of the spinoffs. It's not only so many seats occupied by so many people and the success of a production — the anxiety of many others, unfortunately — but when you put it all together. The film festival, for instance: Try to get a seat or a stool at Bistro 990. They have to hire, and that money goes round and round and round.

What you're saying is: "Give us recognition, be it through a small incentive. Give us a chance to stay alive." You're right. You have to measure, on a different scale perhaps, as it won't happen overnight.

My colleague is right. I don't believe it was totally by design, but it is true that with a program of restraint, the government of the day has made some choices. Please don't feel targeted; many ministries were cut. I don't believe for one minute that culture was targeted, but they were cut. That's the reality of the day. Then they went one step further, and that's where I depart, that's when I started to say, "Gee, no wonder 82 politicians in the Legislative Assembly give the rest of us a bad reputation."

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Then they dictate to the municipalities, cut you off substantially. It doesn't cost them a bloody penny, but they stop the municipality from levying taxes. At the same time, this is what they shove down the municipalities: land ambulance, policing — the list is almost endless. They call it devolution, transfer of responsibilities. They wrap it up and it looks nice, but it's like Bre-X: When you open the package, there's not much gold; there's nothing in it. In fact, this package is all rotten inside. It's as simple as that.

January 1, it might be a free-for-all. But please be one of the early birds. Grab a number. Ask that you be granted the pleasure of an audience with the city council, because it's your last grab at it. This is as far as they will go. Also, take a moment of your time to send a note to Isabel Bassett, even for the recognition of the most democratic form of theatre: street theatre, the most accessible theatre. They're getting a break. I don't like the interference with the municipality, but I can appreciate the forcefulness, and Isabel Bassett is now the Minister of Culture. Sincerely, I think it was a great choice. She was instrumental and she's sincere and she really believes in it. Take a moment of your time, take a moment of her time, and ask that you be represented, that they go one step further.

I have no question, but I too wished to be a part of the record. I share in your presentation. I want to wish you well, but come back tomorrow. Life gets better, and the future can last a long, long time. It usually does.

Mr Grimmett: Thank you both for coming today, for a very entertaining and informative presentation. I just wanted to talk for a few minutes about some of the comments that were made in Ms Barlow's paper respecting the public theatres. I just wanted to let you know that earlier today we had David Mirvish here. Were you able to see his presentation?

Ms Bermonte: No.

Mr Grimmett: He gave us a presentation this morning, and I thought it was quite entertaining, in that he talked about being a private operator in a sector that is dominated by publicly owned and to some extent publicly subsidized operations, and how interesting it has been for his family to try and survive in that marketplace.

I thought it was interesting when he made the comment that when his father was in the business in the early years, some of his handlers and maybe his advisers said, "You're operating a private theatre in a market where all the public theatres you're competing with don't pay the kind of property tax you pay." He mentioned some figures; he said it was around $150,000 a year he paid, while the public facilities he was competing with didn't pay. His comment, and I think everyone would believe David Mirvish was quoting his father accurately, was: "I don't care. They have to deal with committees, and I don't." He saw that as a major advantage. He could go about his operation and use some of the entrepreneurial flair that his family has demonstrated for a long time. David Mirvish made the point that he didn't wish for public facilities to pay taxes; he just wanted to make sure that his operations could continue in the game. I think that's very much the way we have approached this legislation.

I will admit that the theatres under 1,000 are clearly getting a break and it is at the expense of the municipalities and the municipalities are going to have to deal with that, but that is also in recognition that there is an important contribution made by the smaller theatres, not only to the economic development of many municipalities — and let's not forget that this bill is not entirely about Toronto. The under-1,000 theatre exemption applies to all those theatres that exist in all the smaller community around Ontario, and I'm sure you know them well. They certainly are in most of our ridings, if not all our ridings. There is a significant benefit there to the arts community in those parts of Ontario where they exist.

But even those people who have come representing those public facilities, it seems to me, have indicated that they too feel that it is only fair, from a taxation perspective, that when the private facilities and the public facilities have commercial operations going on, they should be treated the same way, and that really is what Bill 149 is all about. It treats public facilities, when they have a commercial-type operation going on, the same way as it does private. I think that would be seen by the public as fair. Do you have any comment on that?

Ms Barlow: Simply that it's complicated to administer in terms of, where do you divide it up? What is it, 182 days in productions? You know, when you hit 183, you start paying taxes. It just seems complicated to administer, and that the incentive would be worthwhile to maintain at the status quo. As you say, David Mirvish doesn't object to the status quo as far as the large publicly owned facilities are concerned.

Also, I'm concerned that we do compete in a global marketplace. More specifically, our neighbours to the south don't have these kinds of property taxes. Many of the commercial theatres, because they're designated historic, have property tax relief as a result of that, or they're a not-for-profit facility management — they're a 501-3C — so they're exempt from property tax. It's a question of a level playing field with some of the other provinces as well as our American neighbours.

Ms Bermonte: If I could add to what Janis was saying, I've seen the formula and it's very complicated. On the one hand, the proposal that she's offering simplifies it very clearly for everyone concerned. Also, Mr Mirvish and Mr Drabinsky and Mr Latimer have a history of investing in what they call R&D, the non-profit sector. By relieving them of property taxes, it gives them a bigger incentive to invest in the non-profit sector and to develop

shows so we can be an exporter of theatre goods. We are already, but it will just strengthen our hold, our role as an exporter of theatre products, not only in North America but also around the world.

So there is an incentive there, it just makes everything simpler from an administrative and bureaucratic point of view, and I think it's simpler for everyone to understand the legislation and how it applies to them.

The Vice-Chair: Thank you, Ms Bermonte and Ms Barlow, for appearing before the committee.

With that, the morning is finished, and we'll recess until 1 o'clock.

The committee recessed from 1159 to 1305.

ONTARIO HOME BUILDERS' ASSOCIATION

The Chair (Mr Terence H. Young): We will start. We're continuing the public hearings of the standing committee on finance and economic affairs reviewing Bill 149. I wonder if you could please identify yourselves for the record. I understand you're from the Ontario Home Builders' Association. You have half an hour to use as you wish. If you leave any time after your initial presentation, I will divide it evenly among the three parties. Please introduce yourselves and go ahead.

Mr Peter Goldthorpe: Good afternoon. My name is Peter Goldthorpe. I'm director of public affairs for the Ontario Home Builders' Association. With me is Celia Teale. Celia is vice-president of OHBA. She is also involved in land development for Dalron Corp in Sudbury and is a past president of the Sudbury Home Builders' Association, one of OHBA's locals.

OHBA is a volunteer organization representing the home building industry. We have approximately 3,200 member companies in 34 locals across the province. I will begin by making some general comments about Bill 149, the second part of the Fair Municipal Finance Act. This will set the context for the more specific technical comments that Celia will be making. As you mentioned, we have 30 minutes. We're going to be brief so there will be time for questions afterwards.

To begin at the beginning, the home building industry fully supports the government' efforts in the area of property tax reform. If there is anything that can be said without fear of controversy, it is probably that Ontario's property tax system is broken and needs to be fixed. Deficiencies in the current system show up all over the place, and especially so in housing, where a lot of new units come on to the market each year.

In general, there has been a fairly steady year-over-year increase in the value of housing in Ontario. But in most cases, only the newest housing is assessed at current market values. The balance is assessed at older, generally lower, values, and this results in obvious inequities. So we are glad to see the taxation field being levelled. We do, however, have some concerns about the incidence of redistributed tax burdens. Any attempt to level a very large field is bound to result in occasionally, and unintentionally, shifting too much burden on to some specific area. Celia is going to explain how this might be happening in the area of land development. But before she goes into the technical details, I want to briefly remind you of a couple of general points that will place her comments in context.

The first point concerns provincial policy with respect to ensuring a supply of affordable housing. One of the goals of this policy is to avoid upward pressure that occurs when the demand for housing outstrips the ability of the industry to supply that need. To this end, the province wisely advises municipalities to ensure that there is a 10-year supply of land designated for residential development and at least a three-year supply of land that is draft approved.

The second point concerns the economics of our industry. The land development and home building industry is one of the few in Canada that is unable to deduct carrying costs of inventory from its income. As a result, companies that are profitable in the eyes of Revenue Canada must sometimes borrow money to pay their taxes. The sort of financing that this entails obviously increases the cost of housing; it does so directly, because all these costs must be capitalized. It also does it indirectly, because the financing requirements are a barrier to small companies that do not have deep pockets. One of the effects of the policy proposed in Bill 149, therefore, is to increase concentration and decrease competition in the home building industry. When you do this, you run the risk that prices will go up.

With these two points as background, I will now turn things over to Celia to talk about one of the impacts that Bill 149 may have on housing in Ontario.

Ms Celia Teale: Thank you, Peter. The issue that is causing us concern in the proposed assessment system is the treatment of farm land undergoing development. The current tax treatment is all over the map, and that is yet more proof that reform is long overdue. But the typical practice in most municipalities has been to stay with the farm land assessment until the use actually becomes residential. In farmer-to-farmer transactions, farm land in most of southern Ontario typically costs $2,500 to $3,000 per acre. The assessed value is usually 10% of this. So farm land is generally in the range of several hundred dollars per acre.

Bill 149 proposes to reassess farm land that is undergoing development beginning at the draft-approval stage. Two further reassessments are proposed, at registration and building-permit issuance. For low-rise residential development, registration and building-permit issuance typically occur fairly close together at the end of the process. As a result, the tax treatment at these two stages will have less impact on the cost of housing.

It is the proposed treatment at the draft-approval stage that gives rise to the most concern. There are two points about draft approval that are relevant in this discussion. First, by itself, draft approval does not offer any assurance that the land will actually be developed. Second, for a lot of reasons, draft approval can occur long before a serviced

subdivision comes on stream and the construction of houses is under way. Draft approval is, however, a recognizable stage in the planning process, so I am not suggesting it is a purely arbitrary choice for reassessment. But I want to emphasize that the increase in assessed value at this point will likely be very large. This fact must be combined with the uncertainty of draft approval. As well, a large increase could directly jeopardize the province's intent to maintain a supply of draft-approved land in order to protect housing affordability. When viewed in this light, I think it is prudent to take a very cautious approach to reassessment at this stage of development. This is the nature of our concern.

Now I would like to apply some numbers to this so you can have a sense for what might happen. I said earlier that the assessed value of farm land is typically in the range of several hundred dollars an acre. In Sudbury, where I have just been involved in a review of property tax assessments, bulk acreage rates average $40,000 per acre on sites up to 15 acres. If servicing is not available, the rate is cut by 50% to $20,000 per acre. In developing areas in southern Ontario, the rates are substantially higher than this.

Under the draft regulation that has been circulated with the proposed legislation, this value would be discounted by 50% to 75%. The larger discount is the default, so I will use this as the comparison. The shift in assessed value for farm land undergoing development will be substantial. It will rise from several hundred dollars to thousands of dollars, and this is probably conservative. How this translates into effective tax rates, of course, is another matter, and that is uncertain at this point in time. We do not know, in precise terms, what is going to happen to the assessments of other classes of property, so we do not know exactly how the tax base for land undergoing development will change relative to other types of land, nor do we know the net impact of the downloading and restructuring that is taking place. But even without this information, it is safe to assume that land undergoing development will contribute a larger share of property tax revenues under this proposed legislation. The only question is: How much larger?

Land development is the first stage in most economic growth and development. If businesses cannot locate, they cannot get started. If potential employees cannot finding housing, businesses cannot be staffed. If land costs are not kept as low as possible, businesses will have a tough time remaining competitive. The cost of land affects commercial rents; it also affects salaries and must reflect the cost of housing. If these do not remain competitive, companies will be hard-pressed to remain in business, let alone expand.

I understand that property taxes are based on the value of land. So the straightforward approach is to say that the taxes should go up as the value of the land increases. But let me suggest that inflexible adherence to this principle is shortsighted and dangerous. Other equally important provincial policies and interests, such as economic development and affordable housing, are at stake in this matter.

From a purely practical perspective, it can be argued that development charges are financing, or can be used to finance, costs incurred during development. It can also be argued that development charges act like a property tax surcharge.

With this in mind, OHBA has proposed delaying reassessment of land undergoing development to a later stage. I refer you to the attached resolution 022 from our annual general meeting, in which we propose registration of the plan of subdivision as the trigger for reassessment.

In closing, let me remind you that responsible tax policy involves a blending of complementary tax instruments. It also requires that we be sensitive to the consequences that any specific tax policy may have on a wide range of policies and interests. In the proposed tax treatment of land undergoing development, I believe we have forgotten about the role of development charges. I believe we have lost sight of important interests in economic development and affordable housing. Thank you for your attention. We will be happy to answer any questions you may have.

The Chair: Thank you very much. We have approximately 21 minutes left. I'll go first to the NDP for questions.

Mr Pouliot: Thank you both for taking the time and presenting us with a straightforward opinion by way of your time today. What the Ontario Home Builders are saying echoes the sentiment that has emerged throughout the week of public hearings. There are two main themes, and the presenters will attest to that: on the one hand, the arts, theatre groups, members of both Odeon and Players, major and some not-so-major players in the film industry, anywhere from the opera house to the most humble of democratic theatre, if you wish; and on the other hand, the other theme that has emerged is yours, that of what's about to happen unless the government takes heed, that of the definition and classification of land which is presently being farmed or in some cases is vacant.

The staging of assessment before the last stage does not encourage someone to develop; it proves to be a deterrent. That's what you're saying. You're also advising that when you look at the bigger picture and when you blend that with the mandate and philosophy of the present government — creating jobs, Mike Harris the Taxfighter, Ontario is open for business, we will cut the red tape, we will provide economic stimulus, create the climate etc — when one looks at the proposal, the draft of Bill 149, it is beyond the ironic; it is contradictory. This is the mantra, this is the spin, this is what they say. They say, "We will do what we said we would; people will like that," and then they come up with this.

Sometimes I suspect two things: One municipality with a lot of clout, shouting and jumping up and down, got to them and/or because they're downloading so much on the municipalities, because this is not revenue-neutral, because they're hurting the municipalities so much, they extended an olive branch to them and said, "Well, we'll give you this opportunity, but you're going to be the bad guy, the bad people."

But you go, in your direct relationship with the developers, and you tell them they can't develop, because you can't get the land, it's too onerous. I'm with you, but when all is said and done, I remain confident that if anything changes in Bill 149 by way of amendment, this is it. I think the government has listened and hears you loud and clear that some accommodation must be made, because the presentations repeatedly tell us the obvious. It's just nuts and bolts, straightforward. I do appreciate your presentation and certainly will urge the government to listen to the presentation you've made and to act accordingly when it comes time to produce the amendments, before we go clause-by-clause.

Mr Goldthorpe: I'm not sure if there was a question in that.

Mr Pouliot: No, it was just by way of comment.

Mr Goldthorpe: I appreciate your support. Certainly the message we've received from the Minister of Municipal Affairs and Housing every time he has come to our conference to speak to us in the last three years was that the housing industry in Ontario was overtaxed and overregulated and that the government needs to be doing things to lighten the tax burden, not increase the tax burden, on the industry. As I said, we appreciate your support for these proposed amendments.

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Mr Wayne Wettlaufer (Kitchener): Thank you very much for appearing before the committee. I have some questions, and I hope we can do this very briefly. I had a developer come to me last week in my riding. He indicated that he was presently paying $45,000 a year in taxes on a plot of land for which the draft plan has been submitted. He estimated that the taxes under this bill would go up to $400,000 a year. Do you see that as being possible?

Mr Goldthorpe: As Celia mentioned, one of the problems we're grappling with in commenting on this legislation is that no one knows what the final numbers are going to be. The effective tax rate ends up being a function not just of the assessment but also of the mill rate, and that mill rate is going to be determined by the assessment base across the entire municipality, and how that ends up being changed as a result of actual value assessment and the relative share of this class in that assessment base is also going to be a function of the expenses the municipalities have to finance. There are still some open questions about what those expenses are going to be in the next couple of years.

Certainly when you look at an assessment which is changing from 10% of farm land to 25% of bulk land rates, that increase in assessment is, in a lot of cases, going to be greater than a factor of 10. You're talking about a tax hit of a factor of 10. So it's not outside of the realm of possibility. Whether it will actually happen, at this point in time we don't have the numbers to answer that question.

Mr Wettlaufer: I believe that the average rule of thumb is that it could take as much as four to seven or eight years from the time the draft plan has been submitted to the time the contractor starts building homes on that land. Is that correct?

Ms Teale: That's quite reasonable. I think we all have to remember too that draft approval doesn't necessarily mean registered lots that will become developed, because although you've taken the risk to go through the planning process and acquire draft approval, unless there's servicing capacity at the time of registration, they won't let you proceed. Years ago, draft approval might have carried a little bit more weight than it does today, because there are so many other constraints that are tied to that draft approval now.

Mr Wettlaufer: Until homes are actually sold, no remuneration comes the developer's or the contractor's way.

One of the arguments that has been made to reinforce passage of this bill is that presently under the legislation that exists if a contractor or a developer puts in services but chooses not to build homes, this land is still assessed at agricultural taxation rates, even though the services are in. Do you have a comment on that?

Mr Goldthorpe: It depends how it's being used. If the use of the land, even though the services are in, is agricultural and it's just sitting there not being developed any further, that's a different situation than if you're actively working on developing the land and bringing it on stream.

Just to reiterate the point that Celia made, you shouldn't be looking at individual tax instruments in isolation. Certainly we've heard a concern from some municipalities that land that's undergoing development is not paying its share of expenses. I think you have to keep in mind that there are development charges being paid. The current legislation, as well as Bill 98, provides for early payment of development charges at draft approval, so that when the services are being put into a subdivision, municipalities can be collecting very large sums of money from the development industry that are paying for services that are being required for that land at that time. So the property tax payment is not the only tax revenue coming off that land at that point in time.

Mr Wettlaufer: If the services are in, ie, curb and gutter, hydro, sewer, how would it be possible for that land to be used as agricultural land?

Mr Goldthorpe: I think if you're talking about curb and gutter, obviously you're not going to be talking about an agricultural use any more. That would be a different situation.

Mr Wettlaufer: I'm looking for some input. You're opposed to the bill as written in so far as how the assessment will be made. What would be a better period over which to pay? I'm not looking at your resolution here; I'm looking at something maybe in between, ie, from the time the draft plan is approved to somewhere through the period until registration or until construction or until sales are made. Would there be a better time? I understand that the UDI is not necessarily opposed to this bill, that they have proposed something else.

Mr Goldthorpe: Our proposal is registration. I think at registration you'd be capturing the sort of development you're describing, curbs and gutters in place, individual

lots created and that sort of thing. The proposal we've made is 20% of current value at the time of registration, and then you'd be looking at a relatively short period of time when they're finishing off the development process and then reassessing again when the occupancy permit is issued, I would think.

Mr Wettlaufer: But could there be something else in between your resolution here and the bill, a compromise?

Mr Goldthorpe: The problem with having a recognizable trigger is that you're really left with draft approval or registration; there's not too much in between in terms of recognizable triggers. So if we weren't looking at registration, then I think we'd be looking at very substantial discounts from current value at draft approval; a 75% discount is probably not sufficient.

Mr Phillips: This is an area where I think there's probably broad-scale agreement that there's something wrong with the bill as it's proposed. We've heard from a lot of municipalities, actually, that are concerned about the bill, which is only mildly surprising, because they would stand, theoretically, to benefit from increased revenue. We heard yesterday from the mayor of Brampton, who indicated some significant concerns about what it will do for the availability of reasonably priced land for both commercial/industrial and residential. So it looks like there may be a mistake in the bill.

Certainly you've put forward a good case, that all of us are looking for some reasonably priced housing in the province, and this appears to drive up the cost of available land quite significantly, as a matter of fact, potentially disastrously, particularly if, as we always do, we run into some kind of an economic downturn; just when the builders assume they're going to be able to plow ahead, they get very close to building and then they've got to pause for a couple of years but the tax tap is running full out.

I hope the government is looking at an amendment in this area. It will be, to some extent, up to them, obviously. The only thing I would say is that the amendments have to be in by 5 o'clock on Tuesday, so the clock is also running quite quickly here for them to develop those amendments. I can only assume, as my colleague Mr Pouliot said, that they've been listening carefully, because you're probably about the sixth well-regarded organization that has raised the concern. I don't really have a question. You've covered the same ground that has been covered by many. I think you have a legitimate concern here, and I hope the government has its technical people working on a solution for us.

The Chair: Thank you very much for your presentation today, and thank you for coming.

1330

TOWN OF HUNTSVILLE

The Chair: Could the representatives for the corporation of the town of Huntsville please come forward. You'll have half an hour. After an initial presentation, if you leave time, I'll divide it equally among the three parties for questions, but you can use the time as you wish. Would you please identify yourself formally for the record, and then please go ahead.

Mr Christopher Williams: My name is Christopher Williams. I'm a solicitor with the law firm of Aird and Berlis. We represent the corporation of the town of Huntsville. To my right is Mr Robert Small. He's the town manager and clerk for the town of Huntsville. He will be available to assist me and to answer any questions the members of the committee may have regarding my presentation.

By way of background, the town of Huntsville is an area municipality within the district municipality of Muskoka. By virtue of the provisions of the District Municipality of Muskoka Act, the district functions as a regional municipality or a regional government, notwithstanding its nomenclature as a district municipality, and the town of Huntsville is, for all intents and purposes, as are the other local municipalities, an area municipality. Notwithstanding the fact that it's called a district municipality, what we're dealing with is a regional government system.

The town is the most populous of the six area municipalities which make up the district of Muskoka. It has a full-time population of 18,000 and obviously many more during the summer months as a result of resort and recreational use. This constitutes approximately 35% of the district's total population.

From a land area perspective, Huntsville covers almost 69,000 hectares and is the second-largest of the six area municipalities in the district. By way of some comparison, the town of Huntsville is about the same size as some regional municipalities in southern Ontario and certainly much larger than Metropolitan Toronto. Obviously the district of Muskoka covers a very large area, and it's due in part to these facts.

It's important to note for the purposes of this submission that the district also has significant geographic and demographic differences. Mr Small may be able to attest to some climatic differences that he noticed driving down here this morning as well. It is different from regional municipalities within the greater Toronto area, which are much more homogeneous in their current land use, expected future land uses and population distribution. By way of example, the next closest lower-tier municipalities, urban areas, to the town of Huntsville are between 40 and 50 kilometres from the downtown, urban part of the town of Huntsville. That stretch, it's important to note, is never going to be developed, as a result of the existence of the Canadian Shield, and it will likely remain as a forested wilderness area.

The important point here is that services do not, for the most part, overlap between the area municipalities, and there is not the ability to create a homogeneous development pattern or servicing structure, which exists in regional municipalities in southern Ontario such as York, Peel, Halton, Durham and the like. The separation and distinctions between the communities in the district of Muskoka will inevitably continue, and they will tend to function quite separately, as opposed to what we see hap-

pening to regional municipalities in the greater Toronto area.

As a result of these circumstances, the delivery of services across existing municipal boundaries is often impractical, if not impossible. Given the physical separations which exist between the more heavily populated pockets and having regard for the thrust of the proposed legislation, Bill 149, to create local-level decision-making in the areas of municipal assessment and taxation, we submit that it is important to define what a locality is, and it's obviously going to be our submission that a locality, or the municipal level which should have the bulk of the decision-making authority, is the local or area municipality, at least in the district of Muskoka.

Finally, by way of background, we note that based upon the 1996 assessment for the 1997 taxation year, Huntsville has the second largest total assessment base and by far the largest commercial/industrial assessment base of the six area municipalities. For example, the commercial/industrial percentage in the district of Muskoka as a whole is 8.1% and that in the town of Huntsville is 18%. Examples of some important industries in the town of Huntsville are Kimberly-Clark, Algonquin Industries and Tembec. They're large industries. They are poised to expand. They employ over 1,000 people, and they are very sensitive to changes by way of increases in their tax rates.

The town of Huntsville has expended considerable energy trying to encourage these industries to locate and expand. It's in that way that perhaps the vision of the town of Huntsville vis-à-vis its economic and tax policy may diverge to some extent from the majority of municipalities in the district of Muskoka, in that Huntsville is more actively courting and encouraging commercial and industrial use as opposed to simply being reliant upon seasonal-residential, which is the norm throughout much of the rest of the district.

It's as a result of these different visions of its economic future that we believe the current bill will create some difficulty for the town of Huntsville and should be changed. But I would hasten to add that our general observation of Bill 149, as it is really a continuation of the Fair Municipal Finance Act, 1997 (No. 1), being Bill 106, is that we generally support the thrust and intent of both those pieces of legislation.

The town concurs that there's a need for change with regard to property assessment and taxation, as the system currently in place in the province is outdated in many respects. The creation of a single, consistent approach across the province with respect to property assessment is long overdue and is greatly welcomed. The principle of providing local municipal governments with more decision-making powers vis-à-vis assessment and taxation is logical, appropriate, fair and just. Allowing municipal governments, which have the most direct links with taxpayers, to address the concerns and priorities of their constituents through the municipal taxation system, and being able to determine what the appropriate distribution of tax liability will be, is a positive step and one in the right direction.

However, notwithstanding our support in a general sense of this thrust and intent of Bill 149 and Bill 106 of facilitating local decision-making, there are aspects of Bill 149 which the town respectfully suggests should be modified in order to better implement the principle of local decision-making and to improve the legislation. I'd also add that the town is disappointed that the concerns which it raised, largely along these lines, regarding the Fair Municipal Finance Act, 1997 (No. 1) were not addressed in that bill. We have attached for your information a copy of our submission in April regarding the first municipal finance act.

The town's concern fundamentally with both pieces of legislation is with respect to the distinction made between upper-tier municipalities and lower-tier municipalities. In a nutshell, it appears that upper-tier municipalities are being empowered both through delegation of what had been performed by the provincial government and by taking away some hitherto powers of the lower-tier municipality and giving them to the upper tier without a logical or reasonable policy basis for doing so, particularly in a municipality such as the district municipality of Muskoka, which has a number of very diverse and separately operating area municipalities.

Like all lower-tier municipalities in the province, for years the town has set mill rates based upon the forecasted needs and expectations of the town. Obviously those needs and expectations are going to change dramatically as a result of the changes occasioned by the Who Does What series of legislative and policy decisions, and therefore the town is very shortly going to have a very substantial realignment of the nature and type of services it provides.

The town obviously had regard for the requirement of the 15% differential between the residential and commercial/industrial rates of tax. While the difference which must now exist between residential and commercial/industrial is presently statutorily mandated, the proposed legislation, both in Bill 106 and Bill 149, would provide a great degree of flexibility with respect to the actual number of tax rates created and the differences or variations which can exist between them, and that's a very significant change and a very important change, because what we're getting into then is the split between residential and commercial/industrial, and through Bill 149 we're getting into the concept of bands of commercial/industrial assessment where the liability will be changed depending upon what band the property fits into.

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This is, if I may say so, a significant empowerment for municipalities, but unfortunately Bill 149 provides a new section to be added to the Municipal Act, section 368.2, which would, subject to the appropriate regulations being promulgated by the minister, permit upper-tier or single-tier but not lower-tier municipalities to, by bylaw, establish bands of assessment for the purposes of facilitating graduated tax rates for commercial and industrial.

As I've noted to the committee, commercial/industrial is of great importance to the town of Huntsville, and I would submit it is of greater importance to the town of Huntsville than other area municipalities and the district of Muskoka in general, given the current existence of a high percentage of industrial-commercial assessment and the town of Huntsville's vision of encouraging that.

The tax for a particular property would then be determined by applying the tax rate for each band or the proportion of the assessment of the property within the band. The regulation-making authority allowed the minister under this legislation is extraordinarily broad, and it is arguable, although not clear, that the minister may have the authority under the section I've just mentioned to promulgate a regulation which would empower a local municipality to establish the bands as opposed to the upper tier. However, the legislation on its face reserves that authority for an upper-tier or single-tier municipality, and the regulation-making authority, while extraordinarily broad — and that's perhaps another point for another day — is not entirely clear.

The concern here is quite similar to those we expressed to the committee last April regarding the Fair Municipal Finance Act, 1997 (No. 1). That regarded the empowerment of upper-tier municipalities to establish tax ratios and phase-ins. Our concern is that lower-tier municipalities, although capable of creating their own tax rates, would have those tax rates effectively determined by the upper-tier municipality by establishing the tax ratios and the bands of assessment. Consequently, it would be the councils of upper-tier municipalities which would, for each lower-tier municipality, determine how the tax liability is to be apportioned among the various classes of property and, importantly for the town of Huntsville, through the bands within the commercial/industrial set.

This, we submit, does not achieve one of the desired principles or goals, as we understand them, of this legislation or Bill 106 in that it lessens the accountability of lower-tier municipal politicians and councils to the taxpayer and delegates that to an upper-tier which is more remote, more diffuse and may, in this case, have a very different vision of where it wants to go from an economic-development and tax perspective. While there would be elected representatives from Huntsville on district council, those members currently make up only four of the 23 members on district council. Thus, the tax liability between classes of property in Huntsville and the resulting tax rates imposed by the lower-tier municipalities would not be created by elected officials from Huntsville, and in fact Huntsville representatives could be unequivocally opposed to, and have voted against, assessment bands or ratios approved by district council but, because of the composition of district council, be defeated. This is particularly disturbing given the proportionately high level of commercial/industrial assessment in the town of Huntsville to which the bands of assessment will apply. So what we may get is the district having a somewhat different vision, perhaps wishing to further encourage seasonal-resort or resort/recreational uses and the town of Huntsville trying to encourage industrial/commercial development. The way the act is currently set up, it's obvious the town of Huntsville will not prevail.

As well, it's important to recognize that the assessment bases of various municipalities within a tiered structure — that's any regional government structure, not just the district of Muskoka — can be quite different in terms of the splits between, and amount of assessment base attributable to, the various property classes. That's obviously the situation in the district of Muskoka, where the resort or seasonal-recreational class is much higher in the other municipalities. We would suggest that it would be more appropriate for lower-tier municipalities to determine how tax liability is to be distributed among the property classes within their own jurisdictions.

It's our respectful submission that if one objective of the proposed legislation is to provide local governments with certain decision-making powers which they will need in order to respond to the changes occasioned by the Who Does What series of amendments, then serious consideration should be given to having the lower-tier municipalities be the recipients of those powers, including the ability to determine assessment bands and, we would submit, tax ratios as well, particularly so within the district municipality of Muskoka, having regard to the physical geography described earlier. We believe it is open to the government to differentiate between different regional government systems, and the district of Muskoka is substantially differentiated from other systems of regional government within the province, given its vast geographical area, given the impossibility of urban areas merging or forming together and given the fact that this will not permit much in the way of shared services.

It's our suggestion that legislative amendments be introduced to the proposed new section of the Municipal Act, section 368.2, which would allow lower-tier municipalities, perhaps specifically within the district of Muskoka, to determine their own commercial assessment bands if they so desire. It's our submission that a change of that nature is not at all contrary to the general thrust and intent of not only Bill 106 and Bill 149 but the general thrust and intent of the province towards local empowerment.

If the province does not agree with this request, we ask that provisions be added to that section to permit a lower-tier municipality, at least in the district of Muskoka, to appeal decisions of the upper-tier municipality regarding the determination of tax ratios, phase-ins and commercial assessment bands to an independent third party, such as the Ontario Municipal Board or, at the very least, to the Minister of Revenue.

I understand that in legislation which was introduced in August, the Services Improvement Act, that when dealing with apportionment of moneys needed for health boards in the amendments to the health services act, the ability to appeal decisions to the Minister of Revenue, if the municipalities were not able to agree on something, was available. So we would ask that if the legislation does not specifically empower the town of Huntsville to set the tax ratios, phase-ins and commercial assessment bands, there

be some ability to take that decision-making beyond the district, as there is a great deal of concern that the district may not share the vision of the town of Huntsville vis-à-vis encouragement of commercial/industrial uses and there could be decisions which the town of Huntsville is powerless to stop but which could act greatly to its detriment.

At the time Bill 106 was introduced last January, the minister stated that the province would return the delivery of tax assessments to the local level by January of this coming year, thereby providing municipalities with a much greater degree of control over the determination of their assessment. We understand that there have been a number of proposals considered, and we have been provided with a copy of draft legislation known as the Ontario Property Assessment Corporation Act, 1997. We also recognize that no final decision has been made and that legislation has not been introduced in that regard as yet.

The option suggested in the draft legislation is to maintain a centralized body which is similar in many respects to a regional assessment office, although obviously funded by municipalities, and there is some greater control by municipalities. Another option which is permitted by regulation under that draft legislation would be to empower municipalities to perform the assessment function. It's our desire that it would be made clear that it would also include lower-tier municipalities, not simply upper-tier municipalities.

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With respect to timing, both fair municipal finance tax acts require the enactment of extensive regulations to make them operative, and indeed in some cases comprehensible. To date, we are aware of only one regulation that has been released in draft form. Without a complete set of regulations, at least in draft form, it's very difficult for any municipality to plan for the substantive changes these two amendments will effect on municipal finances and process. We therefore suggest that the government consider deferring the implementation date of both the fair municipal finance acts until the 1999 municipal taxation year.

Finally — and I'll just wrap this up in about 15 seconds — as Bill 149 is supplemental to the Fair Municipal Finance Act, 1997 (No. 1), we request that the concerns we raised in our April 1997 submission on Bill 106 be considered in the context of Bill 149. I repeat that we remain particularly concerned about the assignment of the determination of tax ratios and phase-ins to the upper-tier municipality as opposed to the local municipality.

We've attached for your information a copy of our April 1997 submission, and it goes over those concerns in somewhat greater detail. I think you understand where we're coming from: that it's important for the town of Huntsville to have the ability to determine tax ratios, tax phase-ins and the establishment of commercial bands at the local level as opposed to having it performed at the district level.

That's my submission. I'm not sure if Mr Small has anything to add; if not, then we're both happy to answer any questions you may have.

The Chair: Thank you very much, Mr Williams. There are approximately three minutes per caucus. I'll begin with the government caucus.

Mr Grimmett: Welcome, Chris and Bob, to the committee hearings, and thank you for the rather ominous weather report. It sounds like there's a lot of snow between here and home tonight.

I of course am quite aware of the wonderful political discussions that take place in Muskoka in the six different municipalities and the challenges of having district government. I was struck by your comment at the beginning of your brief that you congratulate the government on bringing in one assessment system that would be uniform throughout the province. Then you went on in your brief to suggest that you would like to have a less-than-uniform approach within the district of Muskoka.

I want to make it clear that I don't think the committee should think that Huntsville is the only municipality in Muskoka that has an industrial base. There are two other municipalities, Bracebridge and Gravenhurst, that have quite aggressively pursued commercial and industrial investment, perhaps not as successfully as Huntsville. Those three municipalities have a cross-section of commercial/industrial and residential, and the other three municipalities are largely supported by cottage and seasonal-type assessment.

What is your particular concern with respect to the upper tier making decisions on the commercial/industrial? Do you suspect that there will be perhaps a tendency to slough off some of the tax responsibility or the assessment responsibility on to the industrial-commercial sector?

Mr Williams: That's precisely our concern, Mr Grimmett, yes.

Mr Grimmett: Do you have a reason to believe that? Has that been the discussion at the district table?

Mr Williams: That's a concern the town has. As well, we believe that the determination of the tax ratios and the establishment of bases for industrial-commercial assessment are better dealt with at a local level, where perhaps the interests or the situation of the town of Huntsville is somewhat different from elsewhere. We believe, perhaps in a philosophical sense, that's better done at a local level.

While I believe your comment is well put, that we don't want to have an overly diverse system across the province, the basic thrust and intent towards fair market value and so forth is going to be uniform across the province. The basic rules are established. It will be a much more comprehensible system. But some of the fine-tuning to respond to local needs, and particularly the local needs that are going to result from the downloading through Who Does What, is going to have to be done at the local level. It's the local level that has charge of the planning function. That ties in with encouraging economic development. I'm not sure if Mr Small has something he wishes to add here as well.

Mr Robert Small: I'd just like to add one comment. Certainly it's true that Gravenhurst and Bracebridge do go after industry. I've spoken to both the treasurer of Bracebridge and the treasurer of Gravenhurst, and they both

have the same concern that I do. They would certainly like to see it amended so that they would have the same power as Huntsville. They are especially concerned about the industrial/commercial tax base and how the ratios are set. They have the concern as I do and would support an amendment.

Mr Grimmett: The three of you, though, the three municipalities together, carry the majority of the voting at the district table.

The Chair: Thank you, Mr Grimmett. We're going to go to Mr Phillips now. If you want to finish that thought during Mr Phillips's time —

Mr Phillips: On delaying it a year, I think realistically that's probably a non-starter. The engine is revved up and this thing is going to leave the station on January 1, 1998. You can lie down in front of it, but I don't think you're going to slow it down.

This thing has been, in our opinion, badly thought out in many respects. There are going to be an enormous number of problems out there, including probably 500,000 appeals on assessment, which probably won't be the least of the problems. But it's going ahead. That decision is made. Don't confuse them with any problems. It's going ahead, so I think we should try and deal with that reality and just say, how do we accommodate?

You made a suggestion on the assessment function. Frankly it's not really before us, as you can appreciate, but I appreciate your advice because some day we will be dealing with the corporate, I guess, but once again, it's being handed over January 1. I come from a business background, and I'd never be opening a brand-new business on January 1 with as little planning as this has got, but I'm not running this. I can comment on it.

Your concern on the potential in a two-tiered system for the upper tier to perhaps deal unfairly with a lower-tier municipality is probably well founded, and it's going to get more complicated, because this bill will, in addition, permit bands by property class so that the upper tier will be setting and saying, "We're going to set three bands by commercial property size or assessment," so that — I'm sorry, it won't be this bill, it's Bill 160, but it is all this tax bill — the upper tier will have a lot of tools at its disposal if it wants to direct tax revenue to certain municipalities, so I think you're right to be concerned.

Having said all that, once again the problem is this thing is set to have the upper municipalities deal with it. I think you're the first lower-tier municipality that has appeared before us with concerns, apart maybe from Mayor McCallion.

Mr Pouliot: Welcome gentlemen. I want to wish you well on your return journey home. I too, I can assure you, can directly relate to it. We live in Canada and it's winter.

Timing: This is one train that will leave on time, January 1. The devil might be in the regulations. We don't know. We know that the fiscal year is different. We know that both Bill 106 and the offspring Bill 149 challenge more than they answer, and yet you are generally supportive. It's a good omen. It's very positive. Why, we don't know, because you're asking that the implementation of the bill be delayed until after the taxation year 1999.

They could perhaps delay it, but it has responsibilities attached to it. Bill 149 carries a lot of luggage, a lot of sideshows. It's meshed, blended. It doesn't work in isolation, not in the least, because at the same time you're getting downloading, who pays for what and when and how much. You're getting massive reassessment resulting in over 500,000 appeals, 18 months to be heard, 3.8 million units to be assessed and reassessed across Ontario — it has never been done before in North America — fewer school boards. You read the paper. It's not all that pretty, and it's all meshed together. You're supportive.

I live under your jurisdiction. We're a mere two months before you look at the interim tax levy, inclusive of the business occupancy tax of this year. I too would wish to be supportive, but I believe that my taxes might go up, sir. It's an educated guess. If they don't go up at the residential level, they'll go up at the commercial and industrial level, if not all three, because first of all this is not revenue-neutral. If it's a wash, it doesn't mean that your municipality will not be impacted.

My question is, you believe that things need to change, but yet your support is tacit, it's tentative, but before a full commitment, you would like to know a lot more from the regulations. Are you comfortable that if you get some regulations and if there is a time frame made available that you could come back quickly and maybe reconcile what's missing here?

Mr Williams: I would, sir, yes. The act does provide for a lot of implementation through regulation, in fact some policy decisions through regulation, so we would be more comfortable if we had those regulations. It's also an issue for municipal corporations to properly plan for the changes to their finances and revenues which are going to come about through this legislation and the regulation, so it's really twofold. One is to understand the legislation, and we support its general thrust and intent, and secondly, to be able to plan for the changes it is going to put in place, and we don't know what those changes are going to be until the regs are in.

The Chair: Your time is complete. Thank you for an interesting presentation. Thank you for coming all this distance today as well.

1400

CANADIAN PROPERTY TAX ASSOCIATION

The Chair: Would the delegation from Canadian Property Tax Association, Ontario chapter, please come forward. You'll have 30 minutes to use as you wish. It's your time. If you leave time for questions, I'll divide it evenly among the three parties. Please identify yourselves for the record and then go ahead.

Mr Brad Nixon: My name is Brad Nixon; I'm a lawyer with the firm of Poole Milligan, and Mr Zinner and I represent the Canadian Property Tax Association.

Mr Frank Zinner: My name is Frank Zinner. I was here before you earlier wearing my Hudson's Bay hat. I'm

the vice-chairman of the Canadian Property Tax Association, Ontario chapter. Our chairman couldn't make it. He's tied up in Victoria at our annual conference.

Mr Nixon: I'd first like to outline to you who the Canadian Property Tax Association represents, who we are and the nature of the organization. It's a national non-profit organization which was incorporated in 1967, and its membership includes the owners and occupants of commercial, industrial, pipeline and multiresidential properties. In addition, there are members who actively represent property taxpayers before the courts and tribunals, all of whom have over the years had an active interest in property tax reform.

Part of our non-profit corporate mandate is to provide a forum and information exchange for discussion on property tax and municipal assessment issues, to advocate for change and review proposed changes. As you may be aware, we have been actively involved with a number of commissions and committees in the last few years as Ontario has embarked upon major reform in municipal assessment and property tax.

The CPTA has consistently urged reform of what has become an antiquated assessment and property tax regime in the province. The present patchwork quilt, if you will, has proved to be grossly unfair to most, if not all, taxpayers, as we find varying tax burdens between property classes and between municipalities throughout Ontario.

As you can see from our presentation, there are a number of principles to which the CPTA subscribes, which we believe should form the fundamental basis of property tax reform, and you'll find them on pages 4 and 5 of our presentation. I'm not going to lead you through them. I'm sure you have heard many of them in some iteration or another.

The fundamental commitment of the Canadian Property Tax Association is to assessment based upon market value, and we commend the government for moving forward with a review of the valuation system in the province which has formed the basis for property tax for almost the last century. However, it has become outdated, has become divided between municipalities. It was intended to be revised and made coherent and consistent throughout the province in 1970 when the province took unto itself the responsibility for assessment of all property in the province. Unfortunately, those reforms were stalled halfway and the goal of a true market value system with consistent application throughout the province was not achieved.

I'd like to make some specific comments relating to concerns we have, and these are comments that are not coming from Mr Zinner and I as individuals but are comments coming from the entire organization, which as I say, is the only spokesgroup I'm aware of that speaks for property taxpayers in the commercial, industrial, pipeline and multiresidential categories as an entirety.

The first is that you've got to understand that like virtually all jurisdictions in the world where there is a property tax regime, this province has utilized a market value system, and the premise of a market value system is that all properties should be valued at their market value or assessed at their market value, and the burden of taxation paid in respect of each and every property should be the same. That argues for one class of property, ie, all properties should be assessed at market value and taxed at the same rate.

The fundamental deviation from a market value system which you find in the legislation before you is the creation of seven property classes, with the potential for the creation of many more and possibly subclasses, so at the outset there has been a decision that the burden of taxation as between classes will not be the same. In that regard, you will see the proof when the government announces its tax ratios. The tax ratios will identify the differing burdens of taxation which exist for each property class.

We expect that the full burden that exists now will remain, if not entirely, substantially on the commercial, industrial, pipeline and multiresidential classes. As you know, the benchmark is the residential class, and all tax ratios are set to that class. In that regard, the province is undertaking significant reform of the education tax burden, and only one half — we're not sure of exactly how the half will be calculated — of the burden will be imposed upon the residential class, whereas the full burden will be imposed upon the commercial/industrial classes,

We're not aware yet — the government has not announced — what the actual tax rate for commercial/industrial education tax will be. One of the concerns that we have as we go forward is the inability of our membership to anticipate their tax burden because significant information is not yet available, information as to the tax ratios, information as to the education tax rate which will be imposed on the non-residential property class.

The Canadian Property Tax Association supports the proposals in Bill 149 to establish subclasses of commercial and industrial properties for vacant land, vacant units and excess land. This recognizes the economic reality of property which is not productive and excess to the needs and uses of the taxpayer. On the other hand, we are concerned about the subclass proposals which propose to create subclasses of commercial property, and the subclasses will be distinguished on the basis of assessment. The nature of those distinctions has yet to be defined, but we know that they will relate to properties, not businesses, and let me give you an example of what that means.

1410

Speaking personally, I believe this proposal came out of the Crombie commission, which recommended a small street retail subclass to be treated favourably, and that has a whole history behind it which I won't go into. However, that proposal is not recognized in Bill 149. There is a proposal for three subclasses based on assessment only, so a shopping centre, which is one property under this bill, may be in the highest-taxed subclass whereas a street retailer who owns his own property and might have 2,000 or 3,000 square feet will be in a single parcel property and in the lowest tax class. The question that's difficult to answer from a tax policy point of view is why the street retailer or the shop with 1,000 square feet has a different taxation burden than a shopping centre retailer located elsewhere in a larger property or a producer in a larger

property. It's difficult to understand, and we are concerned about it.

We have concerns about the provisions regarding farm land pending development or farm land awaiting development. As it stands now, the existing legislation prescribes that farm land awaiting development is assessed and taxed according to its current use, and that has been the historical practice in Ontario for 30-odd years, but for one court decision quite recently. The government's response has been to establish new classes of farm land awaiting development which shall be assessed and taxed not as farm land but as industrial, commercial or multiresidential properties, and the trigger point being proposed to move out of the farm land class into those other classes is the approval of a draft plan of subdivision, which often occurs in the GTA 20 or 30 years in advance of actual utilization of the land. We believe this would have the effect, because there is no longer the benefit of the farm land assessment, of effectively disfranchising farmers who have been farming those lands for 20 or 30 years from use of them; in other words, the land owner will have no need to farm the lands.

In the past, the courts and tribunals have recognized that there are two policy prongs behind the existing legislation, and that is to encourage the maintenance of farm lands in productive use as long as possible, regardless of who they are owned by. As lands move through the development process, there is an attempt to increase the level of assessment and the burden of taxation such that the farm lands will no longer be farmed, and there will be a withholding of lands from the development process as long as possible, which will have a negative impact on the municipalities.

Interest on tax refunds: Many municipalities do not pay interest on tax refunds and sometimes hold on to the money for a lengthy period of time; others have municipal bylaws which prescribe the payment of minimal tax refunds. We recommend that the government draft a model bylaw in that regard or give a proposal. Certainly the taxpayer is obliged to pay interest on overdue taxes; certainly the municipality, in paying refunds, should be paying interest.

We acknowledge that the government's intention is to abolish separate assessments for tenants, but we have very strong concerns — I'm sure you've heard about this — about the ability of tenants to determine how their assessment was derived, because as you now know, the tenants in a building are required in many cases to pay property taxes, but how those property taxes are determined and apportioned between tenants will become a subject of arbitration and a lengthy court battle perhaps as we move forward, given the absence of a separate assessment which the tenant could rely upon and say, "That's what I pay in taxes." We urge the government to ensure, either in legislation or regulation, that adequate and sufficient information is brought forward so that the tenants can identify how the taxes they are required to pay are derived.

Phase-in bylaws: Again we recommend a model bylaw because of the possibility of what we call asymmetric phase-in bylaws; in other words, the municipality can decide to phase in tax increases for one class and not for another or phase in tax decreases for one class and not for another, and it provides the municipalities an opportunity to discriminate between classes, which we think is inappropriate.

A significant oversight, we believe, is that there is a reassessment occurring again in 2001, and we do not know how that assessment and assessment-related tax increases or tax decreases from the 2001 reassessment will be incorporated into the 1998 phase-in bylaw, if it all.

With respect to the education portion of realty taxes, you have before you a proposal in Bill 160 — which I recognize is not before this committee — to re-create a separate assessment for tenants for education tax purposes, and that seems to be in contradistinction to the elimination of the separate assessment for property tax purposes. We're just not sure where the government is going with that. We believe it's important, at the very least, that the government immediately make clear its intention that there will be a uniform rate across the province for all commercial and industrial properties for education tax.

Finally, with respect to the new assessing authority, there has been circulated, as you may know, a draft Ontario Assessment Corporation Act which would create a municipal — not a crown — corporation run by the municipalities to the exclusion of taxpayer representation on the corporation's board of directors. I realize it's not before you, but I think it's important to anticipate that we're going into a reassessment in the 1998 year with a new crown corporation which will be established by the municipalities, dominated by the municipalities, which will be the tax recipients, not the taxpayers, and we have strong concerns that there be a fairness and balance between taxpayers and tax receivers.

Those are my comments. Mr Zinner may have something to add.

Mr Zinner: Not at this point. Mr Nixon has covered them all.

The Chair: We have approximately 15 minutes left, and I will start with Mr Phillips in the Liberal caucus.

Mr Phillips: Thank you for a thoughtful presentation. The government made quite a big deal about protecting small business from tax increases in the bill, because right from the start on their property tax reform, they said that they would implement provisions to help small business. In fact, I was just looking over — many of the Conservative members bragged about that when they had it in the House.

You point out here that it won't be protecting small businesses; it will be protecting owners of small properties, which is quite a different thing. We heard today from one of the major malls that the business occupancy tax is 50% on department stores and 30% on a smaller store, so smaller stores will go up and larger ones will go down. Do you think I have it right, that is, that what is proposed here will simply be a tax benefit to owners of smaller-assessed properties, not the owners of smaller businesses?

1420

Mr Nixon: That's right. The tax is imposed on property owners; the tax is not imposed on businesses. The proposal is to create three subclasses of commercial property at the municipal discretion, and the trigger points or dividing lines between the subclasses will be based upon assessment. To be strictly accurate, I suppose the distinction will be between properties with smaller assessments and larger assessments, but in reality, that generally translates into more valuable properties generally tending to be larger properties and less valuable properties tending to be smaller properties, so yes.

Mr Zinner: Where the problem is going to emanate is when you're looking at a small retailer on a commercial strip and if you're looking at a same ma-and-pa retailer in a shopping centre, the individual in the shopping centre is going to pay considerably more than the individual tenant on the neighbourhood strip.

Mr Phillips: I appreciate that, but I think this will be a bonanza for the legal community. As I said earlier, First Canadian Place will become Condominium Place. They'll divvy up the whole place and sell it off, just because your taxes will be based on the assessment of the property and so you're far better to divide it up and sell it. That's what I speculate will happen, because lawyers are pretty good at figuring out ways around these things.

Mr Pouliot: What about politicians?

Mr Phillips: Lawyers are even better than politicians.

The education portion — you are advocating a uniform mill rate on commercial/industrial. We have no idea what they're going to do, because it's all going to be done by regulation. We'll never get a chance to even debate the legislation, Bill 160, and it gives the minister of the day, whomever he or she is, almost unfettered rights of setting the mill rate within municipalities on different classes of properties at different rates. Unfortunately, the way we are being required to pass legislation, we have no idea of how they're going to do it, but they have maximum flexibility.

If they did impose a uniform mill rate province-wide, commercial/industrial assessment, have you any idea of what that would mean in terms of major swings by municipalities?

Mr Nixon: Mr Phillips, I can only speculate. It will obviously vary according to the existing tax burdens in various municipalities. As you know, in Metropolitan Toronto, the full education tax burden is assumed within Metro Toronto, whereas in, for instance, northern Ontario and much of rural Ontario, a lot of the education tax burden is provincially assumed, so I think there would be a shift into rural and northern Ontario, for instance.

Counterbalanced against that, you're dealing with tax shifts in a temporal sense. We believe that the principle of uniformity is much more important and that there should be tax equity, tax neutrality and that decisions as to where you locate your property and undertake your business should not be guided by local tax benefits or local tax preferences which would be otherwise encouraged by regional tax rates.

Mr Pouliot: It's a renewed pleasure. We miss you, so welcome back to Queen's Park. We haven't missed you too much, for you were here yesterday with the gentlemen adventurers, May 2, 1670, but you have kept well through Hudson's Bay.

I have perhaps some questions but certainly some reservations with respect to your recommendation. Starting with number 9, "Any new assessing authority should be created in consultation with, and operated by, representatives of all the stakeholders" — we're talking about an assessment authority — "including taxpayers," and then the rationale for the previous two lines, and not just a captive, imputing of the tax collector. I'm wrong so often, but be it in a worst-case scenario, I can imagine a tug of war. I don't wish the assessment authority to be quasi-judicial, but I certainly would wish that they be at arm's length with no ability to jeopardize in the least their integrity, and just as importantly, their ability to operate freely. I think we all wish that. So my nuance, if you wish, is it's more than a technical call, a feel, a flair to try it. Maybe it can be accommodated, but we would have to condition to say, "Hey, this is my territory and this is mine," not to become lobbyists extraordinaires, because stakeholders tend to preach for their parish, and why not, but to lure them into an element where you have a taxation or an assessment authority is very tricky. Maybe that's why you put it as number 9, because I would put that one on the back burner for some time.

Mr Nixon: Let me respond to that if I may. One of the things I have certainly grown to appreciate, and I think all of us at the Canadian Property Tax Association have, is that the decisions that you legislators make, although they seem principled, and they are principled, in their implementation, in their details, have huge impacts. What we are doing here is moving from an assessment authority which was operated and run by the province for the benefit of all stakeholders, municipalities and taxpayers, to a system where you have the municipal corporation responsible for the assessing authority, and when the taxpayer goes to appeal their assessment, the responding party will be the municipality and the municipally controlled corporation.

Mr Pouliot: I have no quarrel with long-awaited and certainly overdue reform of municipal assessment and taxation. I have no time for the nuance and the tricks, the dance and the games of what is current, what is market or what is actual. When all is said and done, the local broker told me it was pretty well the same price, so unless it's motivated by ulterior motives, I see no difference. Let's go on with a modern assessment. I support you.

I sense when I listen to your presentation that you have a fear of emerging subclasses, and please correct me, that if at any time power is given to an assessing authority, ie, the municipalities, regional, upper tier, lower tier, whatever, the minute it leaves Queen's Park, if they have the ability to petition the government to establish some subclasses with the intent of recouping lost revenues and the choice is given between the residential and the people you

represent, both commercial and industrial, that in the real world of levy you lose.

Mr Nixon: That's correct.

Mr Pouliot: If you dare, you use that, and you advocate — you did the same thing yesterday, and that's okay — a one-rate system with no creation of subclasses?

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Mr Zinner: If I can comment on the subclasses for a moment, if we continue to create more subclasses, we maintain the inequities that exist in the system today. If we're going to maintain the inequities that we have today, why bother going through a market value reassessment? We're going to maintain the same inequities, and it's a total waste of money at that point, so we have to be very careful when we're creating subclasses.

Mr Nixon: Let me give you, Mr Pouliot, a specific example of the problem that will arise. The legislation moves to a system of seven or more property classes. The legislation prescribes the establishment of tax ratios within the bands of fairness prescribed by the province. However, and this is something that we do mention in our brief, the province also allows the local municipality to keep the status quo by establishing a tax ratio outside the provincial band of fairness for as long as it wants. There's the municipal option to do that, which may have a very significant impact on those taxpayers who anticipated moving to the band of fairness. We recommend that we force, in the long term, municipalities to move to the range of fairness.

Mr Wettlaufer: I have a question relating to your submission on page 8, regarding the two- and three-tier tax structure. I see in my riding, and certainly in many ridings throughout this province, that there is a lack of similarity between "small businesses." You say that one small business is located on a small property and another is located on a large property. The large properties that I am referring to would be the plazas, the malls, the Cadillac Fairviews, of which Zellers and Hudson's Bay would be anchors or subanchors. The values of those properties are very high. I don't see too many genuinely small businesses locating in those malls. I see chain stores locating in those malls in the same product perhaps as a genuinely small business which is located in a downtown area in a smaller building. Perhaps the premises are similar. Would you not agree that some of the genuinely small businesses are entitled to a lower tax rate, ie, because the value of the property is lower, than perhaps a chain store?

Mr Zinner: If we look at the value of property as a small property — we can take any strip; we can take let's say Bloor Street or Yonge Street — the values of those particular individual stores are not low values. They are commercial downtown values.

If we want to make a comparison to shopping centres, and I agree with you that with the regional shopping centres there are very few small operators, but if we get into the smaller centres, if we get into the Bellevilles, the Chathams, Barries etc, and we get into their community centres, a lot of the commercial retail units are small tenants. If we're just referring to the regionals, the Yorkdales, the Sherway Gardens etc, yes I would, but in the smaller areas, no. If we go to Sudbury or North Bay, into the smaller shopping centres, you will find small tenants. You'll also find the chain stores, of course.

Mr Grimmett: I have another question relating to farm lands pending development. I don't know if you were here when the Ontario Home Builders' Association made its presentation earlier this afternoon. They have proposed that assessment be limited to 20% of final value pending the registration of the plan. Given that it can take many, many years for a plan to come to fruition, to be registered, given that much of this land, while it is considered "farm land," is not actually used — much of that land is lying fallow or in some cases part of the land is farmed, but of course all of it is assessed at the farm rate — given that scenario, how would you account for the municipalities needing a greater amount of revenue on that land, being as nothing is happening with it?

Mr Nixon: The existing assessment practice, if I can clarify it, is that only that land which is actually farmed is assessed as farm land. If it is not farmed, then it is not assessed and valued as farm land, it is assessed and valued according to its zoning, and the municipality does get its tax revenues. That is the practice of the Ministry of Finance.

Mr Wettlaufer: Agreed, but it may all be zoned as agricultural use, it's just not being farmed.

Mr Nixon: If it's not being farmed and not put to a productive use, I think that's a matter for the policy of the Ministry of Finance. But I'm not aware that this situation arises that frequently. The concerns of the home builders and others have to do with lands which are being farmed and used for farm purposes and would not be assessed as farm lands during that interregnum when you've got draft plan approval but there's no market and no immediate plans to register a plan of subdivision or develop the lands.

The Chair: Thank you very much. Actually, we're a little bit over time. We're very interested in what you're saying, but we have to keep moving. Thank you very much for coming today. We appreciate your interesting presentation.

LONDON DEVELOPMENT INSTITUTE

The Chair: Could the representatives for the London Development Institute please come forward. You have half an hour to use as you wish. If you wish to leave time for questions, I'll divide it evenly among the three parties, but the time is yours. If you'd like to identify yourselves for the record, you can begin when you're ready.

Mr Ben Lansink: My name is Ben Lansink. I'm from London, Ontario. The gentleman on my left is Bernie Zaifman of Z Group. He is also from London. We are both members of the London Development Institute. We would like to address you pertaining to the issue of farm lands awaiting development. I'm going to speak first, and then Mr Zaifman is going to speak as well.

Sometimes it's necessary to take a look at where you've been if you know where you're going to go, so I'd like to talk a little bit about history. Prior to Bill 106, which was an act that amended the Assessment Act, it was not possible for a property to be assessed based on its fair market value if the regional assessment commissioner decided the assessment value should be other than market value. An example of this unfairness can be found in a precedent Ontario Municipal Board case called Olympic versus Regional Assessment Commissioner No. 3, OMB file A9400179.

In that particular case, the property owner argued that the fair market value of his property was $670,000. He supported his argument by an appraisal done by a professional appraiser in AACI. The Ontario Municipal Board totally agreed that the value in fact was $670,000. However, the OMB could not alter the regional assessment commissioner's assessed value of $1,245,000, which is a little more than 100% more, because the owner could not give evidence that the assessed value of $1,245,000 was not "fair and equitable" in relation to properties similarly assessed by the regional assessment commissioner.

Prior to Bill 106, section 60 of the Assessment Act allowed a regional assessment commissioner to value similar real property in a certain vicinity at virtually any value, provided the value was consistent and resulted in "fair and equitable" assessment for that particular type of property. Notwithstanding that there was no question the market value was $670,000 and the OMB accepted that the market value was $670,000, the OMB could not alter the assessed value as returned of $1,245,000, because of section 60. Section 60 of the Assessment Act prevented the OMB from altering the assessment notwithstanding section 18 of the Assessment Act, which stated that real property must be assessed at its fair market value.

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So to us, Bill 106 was a breath of fresh air. Common sense and fairness had finally returned to the Assessment Act. Bill 106 deleted section 60 and the incredible unfairness of the "fair and equitable" section in its entirety. Finally true fairness could now be accomplished, with the result that each of Ontario's 3.5 million real properties would be assessed for realty tax based on an individual property's current value and not on an artificial regional assessor's "fair and equitable," convoluted, unfair value.

Bill 106, which amended the Assessment Act, received royal assent only in May 1997. It adopted farm or existing-use value. We understand Bill 149 — and unfortunately we're from London, we're not from Toronto, and we've heard a lot of conflicting reports about Bill 149. But to the best of our knowledge, we understand that it's going to allow municipalities to tax land on the basis of draft-plan value versus farm or existing-use value. We understand the effect of Bill 149 to be that if land has draft-plan-approval status, then the tax can be 25% to 50% of the draft plan's current value, and the land use could be anything; it could be residential, industrial, commercial and so on. If the land has registered status, then it would increase from 25% to 75%; and if a building permit has been issued, it would increase from 25% to 100%. The 50%, 75% and 100% is at the discretion of the municipality.

We understand that a 100-acre industrial property now farmed but with draft-plan approval in place is currently taxed at about $40 per acre. With the adoption of Bill 149, the taxes would rise 27.5 times to $1,100 per acre if the municipality uses 25% as opposed to the 50%, 75% or 100% which it would be allowed to use. There is no common sense in this regressive legislation. A land owner will not subdivide until the last possible moment, and therefore no land will be available for immediate development. That's going to send a strong signal to industry that Ontario is certainly not open for business.

I'd like to give you just a little case study of a parcel of land that I own with my family, Marigold Developments (London) Ltd. It's a private company that my wife and I own. We have a small, nine-acre parcel that we received draft-plan approval for in the spring of this year. The draft-plan approval was for 69 lots. The vacant and unimproved land is agriculture in use, and the land is situated in the hamlet of Dorchester. The local government is the township of North Dorchester.

Bill 106 protected Marigold's current value as farm lands. Marigold's sole asset is the 69-lot subdivision, which we would very much like to develop. However, the hamlet of Dorchester does not yet have sanitary collection and treatment infrastructure in place. This means development cannot occur for some time. It might be next year we'll be able to develop this land, and it might be 20 years from now when we're able to develop this land.

The way we read Bill 149, it means that the realty taxes on what is pasture land may increase 27.5 times, from $2,235 per year to a whopping $61,485 per year. The Lansink family will not be able to continue to own Marigold and this piece of land, which we struggled to purchase in 1990. We fought very hard to obtain land use and draft-plan status, which was an arduous, expensive, seven-year task. It took us seven years to get to this point.

Our MPP — and a good MPP for us — Dianne Cunningham, recently wrote to all small businesses, including Marigold, suggesting that her government's top priority has been job creation. Bill 149 will kill thousands of jobs. If we assume the average price for the 69 homes that could be built on Marigold's land to be $175,000, then Ontario just lost a $12,075,000 investment and all the associated jobs in aggregates, manufacturing, trucking, forest, retail, construction and, of course, government.

The government's Small Business — Big Results brochure that Dianne just mailed out says jobs are up and housing starts are up. This will stop with Bill 149. Housing starts may continue to go up in the short term, because we have land that's draft plan approved and serviced and so on, but they will drop dramatically in the long term if small business cannot afford to develop land.

The government is on record as stating, "What government can do is remove barriers that get in the way of job creation." Bill 149 installs a major anti-job-creation barrier.

As an active participant in the land development business in London, Ontario, we are very concerned about Bill 149. We ask that you not support this punitive bill. We are already overtaxed.

I thank you very much for listening to my concerns and again would like to, for the members who just came in, introduce you to Bernie Zaifman, who is also representing LDI.

Mr Bernie Zaifman: I don't have a written proposal to hand out to you, because I just got involved in this at the last minute. Just to give you an idea of where I'm coming from, I've got some grave concerns regarding this proposal for the subclasses for farm land awaiting development. I'm a developer, home builder and landlord in London, Ontario. We have various holdings of land.

In 1973, we acquired a chunk of land that now entails almost 900 acres. We proceeded through the development phases of getting the approvals put into place. Part of the development of those lands entailed about a $15-million infrastructure. We had to build a servicing tunnel to service all the lands. It was a one-shot deal, all upfront costs. To finance that deal, we were given indications from the lenders that the only way they would finance it was to have certainty of development of the lands. So we went out and acquired approvals for all the lands. We have a draft-plan approval on 630 acres. That 630 acres of land will probably last us about 20 years in London, Ontario. We've gone ahead and put the infrastructure in and the financing is in place. But, as I said, it will probably take us 20 years to use up all the land. So we now have a draft-plan approval on 630 acres. We have used 94 acres; that is, registered as a subdivision and built or partially built on right now.

The proposal to come up with these subclasses to tax these vacant farm lands with draft approval, which are farmed, would be a heavy burden upon these kinds of lands. We anticipate that we will probably be there for 20 years by the time we develop the last phases of the development. So this is of great concern to us and to other people in my industry.

My next point — and don't take this in a negative way — is that many times people outside of Metro feel that a lot of legislation is based out of Metro. We seemed to get that feeling when it came to the rent review legislation, and in some respects I get that feeling in this piece of legislation, that this has been driven by concerns out of the Metro Toronto area, not necessarily out of concerns from the municipalities surrounding Toronto or outside of Metro. I think there has to be more concern paid to the citizens outside the Metro area. We have a voice, and I think it needs to be heard. I think our municipal politicians have not been demanding and yelling and screaming that there is a substantial inequity in these provisions.

My next point is about draft approvals in general. A draft approval does not give a developer certainty that he can develop his lands. A draft approval is a document that lays out a number of conditions for development of lands. Those lands may never get developed. There are conditions that may or may not ever be met. There's no commitment on the side of the municipality to give the developer or provide the developer with any services. So the draft approval is part of the approval process, it's a very important part of the process, but does not give certainty to development. I think there may have been the understanding by some that it does, but it does not.

In London, Ontario, registered plans of subdivision are problematic also, because we have a servicing problem in our municipality. There is a lack of capacity in a number of our sewage treatment plants. We can get a registered plan of subdivision and not have the ability to hook our subdivision up. There is a lack of capacity, and the city of London is approving plans of subdivision with special clauses in them that restrict development. So you may have a registered plan of subdivision, but you may in fact not be able to develop the lands.

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My next point refers to affordable housing. I know the provincial government has made it a priority or mandated it that everything be done to try to provide affordable housing. In my mind, these provisions would only increase the cost of a serviced lot, which would throw up the cost and increase the cost of affordable housing and make the housing market available to fewer and fewer people.

There are a couple of other things in the planning process that I think may end up being the result of this process. I think developers may start looking at planning by property tax, where they'll look at their approvals and decide, based on the determination of property tax payments, whether they'll proceed with a certain level of planning. I think this could cause a shrinkage of approved lands and could really throw a bottleneck in the system when demand starts to increase.

Large corporate concentration on holdings: The ability of small to medium-sized developers to finance the tax costs is doubtful. There are a lot of developers who are very small and would not be able to afford to carry the tax costs. They are non-deductible. They'd be capitalized on the cost of your land. The result could lead to land development becoming dominated by large corporations, public companies with the resources needed to finance these costs and the ability to increase generally across the market the price of land to the end users.

Reverse approvals: The prospect of losing someone's land could lead them to try to reverse the approvals they have in place. If the tax payments may lead to the loss of their land, I wouldn't doubt that you would see some developers try to reverse some of their approvals or let the draft-plan approvals or other approvals they have lapse. It may sound like a ridiculous thing, but if you're going to lose your land and that makes the difference, I think it could happen. That wraps up my comments.

The Chair: Thank you very much. There are approximately 14 minutes left. I will go to the NDP caucus.

Mr Pouliot: This is getting to be the proverbial last straw, on and on, and maybe one third of this week's presentations deal with the very same issue. People have voiced their concerns in terms of, "Where is Mike the Taxfighter? Job creation? Job protection?" In some cases,

a chance to dream is being shattered. You've worked seven years.

The province doesn't collect stumpage fees until the tree is harvested. If you play the Exchange, equities, you will not be assessed a capital gains tax until you sell. The market fluctuates. I'm very much aware of that through my colleague. That's why they opened the Exchange. You're asking for an assessment on the basis of what you are, am I right?

Mr Lansink: That's correct.

Mr Pouliot: No more, no less than that.

Mr Lansink: We would like to pay our fair share of taxes. We have no problem paying our fair share of taxes. If a lot is ready to go, then it should be assessed on the basis that it is ready to go. But I have a piece of land in Dorchester, and Mr Zaifman is in the same position. We don't know if we can develop that land or not. We don't know if we'll be able to flush. Pardon me for putting it to the point, but that's the point: If we can't flush, that land is not worth anything more than agricultural land; that's all we can use it for.

Mr Pouliot: Governments should be consistent and reasonable and govern for all. There's a lot of uncertainty. You don't know. Services might never reach you, the neighbour could have more trees, the population could change, all kinds of things. You could hit a severe, long-term depression or an acute recession. Those are all factors. Interest rates could go up. They're all factors you don't know.

Hypothetically, if you are assumed to be industrial when you are not, because someone has decreed it, should you never develop, do you expect to be reimbursed for your taxes? Of course not. You'll never get a penny back from the state. You can't fight those people.

It's becoming so blatant. What they're asking is: "Why don't you assess me on the basis of what I am, like you do A, B, C, D, E, F?" I'm the last person at this table, philosophically, who should say, "I'm going to help developers." Maybe I strike from a slightly different venue, not only for the weak but in view of if it balances, if there's an equilibrium here. There isn't. This is the world upside down. I should be the government, advocating what they're saying.

I agree with you. Enjoy the weekend. We have until the 28th to prepare amendments. If there is one that I could come forward with and have them listen to — and I can only say this once. It's what you said in your presentation.

Mr Wettlaufer: Mr Lansink and Mr Zaifman, thank you very much for coming today. Mr Lansink, I am familiar with the situation in Dorchester. I have a very good friend in Dorchester. You probably know him. Rob Martin.

Mr Lansink: Yes, I've heard of him.

Mr Wettlaufer: The economy in Dorchester isn't exactly what you would call booming. It's not like Toronto. There is not an overwhelming demand for housing lots.

Mr Lansink: There's a slow, steady demand. We were prepared to take that risk in 1990 when we purchased this land.

Mr Wettlaufer: If I read into this properly, I think you have a suspicion as to whether or not the municipality will exercise proper discretion in its assessment once the land has draft-plan approval and once the land has registered status. Is that correct?

Mr Lansink: It's my belief that if you give the municipality the authority, they're going to exercise that authority. I have no trust of the municipality whatsoever. If you give them the right to tax, they're going to tax. That's my position, yes.

Mr Wettlaufer: Would you feel more comfortable if the legislation said, "Assess 25% of the current value when the land has draft-plan approval and a further 25% when the land has registered status"?

Mr Lansink: I would feel more comfortable if I were taxed on the basis of the use of the land, which is what Bill 106 does, and I were taxed on the basis of agricultural land. If in fact I can go ahead and get a building permit, we now have reality. If we're now dealing with something real, then I am quite prepared to pay taxes based on the value at that time. But, as Mr Zaifman and I both said, in our neck of the woods at any rate, we have a lot of land, and we don't know if we can ever build or not.

The municipality of Dorchester has no money to build a treatment plant. They have completed an environmental assessment. They have everything in place to build a treatment plant, but it must be paid for by the development community. They have no money. It's the same in the city of London, they have no money, which means that Mr Zaifman has a lot of land, which on the surface would appear to be very valuable, but it's only worth $5,000 an acre because all it's producing is corn. That's what it's worth, and he should pay taxes on that basis, in my opinion. What we're talking about is fairness, strictly fairness. We don't see any fairness in Bill 149, never mind the jobs and all the other damage it's going to do. It's just not fair.

Mr Wettlaufer: Presently the farm land pending development is assessed at 25% of value. Would you not say that once the land has draft-plan approval 25% of current value would be acceptable?

Mr Lansink: If the status quo didn't change, yes. If my land is worth $25,000 an acre, that's the current value as defined in Bill 106, and I'm taxed accordingly, sure, I'm willing to accept that. But what I can't accept is that my taxes would go from $2,000 to $60,000 a year. My family is going to lose it.

Mr Grimmett: We've heard from a lot of groups that have had similar concerns, and a lot of them are in the development field. I wanted to let you know that when the ministry was drafting the bill and trying to deal with the issue of fairness on the staging of how values go up through the development process, the ministry looked at other jurisdictions in Canada. I don't know if you're aware of this, but I just wanted to let you know that there is a real variety across Canada.

In British Columbia, upon the registration of the plan of subdivision, full market value assessment kicks in.

In Alberta, the assessment is based on zoning it full market value as soon as servicing of land takes place. They apply it to a three-acre portion of the land and leave the balance of the land at farm rates. Then when the subdivision plan is registered, all of the land is assessed at full market value.

In Manitoba, they use the test that once servicing of any kind commences, the land is reassessed to reflect the value added. So they go through a stage process as well.

In the most aggressive jurisdiction, in Quebec, as soon as the farm land is rezoned, its assessed value is increased to reflect the market value, and there is no provision for any property tax relief at all.

In this legislation, we've tried to provide a balanced approach, given what they do in other jurisdictions.

Mr Lansink: I have just a quick response to that. What comes to my mind right away is, how many houses are built per capita in British Columbia compared to Ontario? Ontario is booming right now because we have reasonable assessment and taxation rules in place. In Quebec, I'm not sure, I'm not an economist, but I don't think I'd be far off in saying that the housing industry in Quebec is suffering right now very simply because of that type of legislation.

Mr Phillips: I appreciate your presentation. Your industry has been very articulate. We've heard from the Ontario Home Builders' Association, the Greater Toronto Home Builders' Association and the Urban Development Institute, plus several municipal politicians, who have expressed similar concerns.

I think you've got your finger on a mistake in the bill. They've made a mistake in the bill. That happens, in my opinion, when you've got an organization, the Ontario government, taking on so many things all at once. The organization just can't handle this degree of change. I know you know from your own experience that if any organization tries to do too many major things at once, it has a potential to screw them up. I just don't think any organization can do the downloading on municipalities, closing of hospitals, taking on the education system and this. This is the most fundamental major change in property tax in the history of the province, but it's on a fast track.

You've got your finger on one problem. There are a lot of other problems in it, actually, that will come to light probably in about April. But it seems to me the government has to fix this one. You've got all of the people who are involved in attempting to keep housing and industrial-commercial development at a reasonable cost saying that this is going to drive it out of sight, and you've got the majority of municipalities saying, "We don't want it, because even though it may theoretically give us some short-term revenue, we think it's going to do more long-term harm to our revenue; in other words, companies won't locate in our jurisdictions because they won't be able to afford to."

I hope the government is listening to you, because, as I say, we need an amendment from the government, because they're going to have to develop the amendment, by next Tuesday at 5 o'clock. If it isn't in by next Tuesday at 5 o'clock, the bill goes as it is. So I hope they're listening, and I hope we see an amendment that fixes it by next Tuesday. Otherwise, we've just seen dozens of examples where the cost of land is going to be driven totally out of sight. As my colleague said, that's in good times. In an economic downturn, where developers have registered the property and got building permits but simply say, "I'm not going to proceed right now, because there isn't a market; we'll have to wait," there are still going to be property taxes going out of sight on them.

The Chair: Can you wrap up, please, Mr Phillips?

Mr Phillips: I just say that you've added your strong voice to a number of other strong voices. I hope the government has heard.

The Chair: Thank you very much for travelling here today and for your interesting presentation.

Mr Lansink: We hope common sense will prevail.

The Chair: This committee is recessed until 3:30.

The committee recessed from 1505 to 1516.

ASSOCIATION OF MUNICIPAL CLERKS AND TREASURERS OF ONTARIO

The Chair: We'll go ahead. We have people seated at the table. Please identify yourselves for the record, and then you'll have 30 minutes to use as you deem appropriate. If you leave time for questions, I'll divide it equally among the three parties.

Ms Cathie Best: My name is Cathie Best, and I'm the president of the Association of Municipal Clerks and Treasurers, the AMCTO. With me are Ken Cousineau, the executive director of the association; Steve Robinson, also a member and the treasurer of the town of Cobourg; and Bob Heil, the corporate manager for Haldimand, as well as a member of the AMCTO.

As you may be aware, the AMCTO is the largest voluntary professional association for municipal government managers in Canada. Clerks, treasurers and CAOs are self-regulated professionals for whom the AMCTO is the certification body in Ontario. The association has been in existence since 1937, and today our members are represented in approximately 93% of the municipalities in Ontario.

Clerks, treasurers and CAOs provide the professional expert administrative support required for the efficient, continuous and professional delivery of municipal services. Everyone will be counting on us for the effective implementation of both Bill 106 and Bill 149, not to mention other legislation and provincial initiatives relating to downloading and municipal restructuring.

Therefore, as indicated to you in our Bill 106 presentation and submission, we believe we have a duty to flag concerns and issues that could be problematic if Bill 149 is passed in its current form and applied across Ontario. We'd like to provide some foresight into issues likely to arise through this aspect of the restructuring of municipal responsibilities.

Before detailing our views, I'd like to express our appreciation for the opportunity to appear before the committee and to put these views on Bill 149 before you and on public record.

To begin, I must state that the AMCTO, after reviewing Bill 149 and having previously reviewed Bill 106, recognizes that the provincial government is trying to be sensitive to a number of stakeholders and their needs and to provide a system that is fair in the greatest number of situations. In addition, the AMCTO acknowledges the government's intention that the bills will stabilize and purify the assessment system when fully implemented.

However, at the same time, the tax system will be immensely complicated by the institution of some 84 classes and subclasses of property and up to 156 tax rates by the addition of bands and the possibility for rebates and phase-ins. Appeals will result from assessed property values as well as from disputes concerning the class or subclass in which a property has been placed. The combination of these factors will undoubtedly increase the complexity of the property tax system rather than streamline it.

To date, the ministry has been unwavering in its opposition to proposals from the AMCTO and others concerning any postponement in the implementation of the fair value assessment system and the related approach to taxation. In the AMCTO's view, such a postponement would go a long way to ensuring the stability of the system on which municipalities depend for billions of dollars in revenue. Implementation on January 1, 1998, is a high-risk situation for the stability and financial health of the municipal sector. There are some municipalities in Ontario that simply will not be able to cope with this situation.

Once again, we suggest that there has to be more information sharing, particularly given the timetable for review and implementation of Bills 106 and 149. To perform functions effectively, clerks, treasurers and CAOs need all the information they can get as soon as possible.

To summarize this particular point, we who are responsible for the implementation do not think that there is either enough time or information to expect or even hope for smooth implementation as planned.

Our detailed concerns and recommendations regarding Bill 106 can be found in our written submission provided separately to the clerk. Our presentation today will focus on our priority issues specifically relating to amendments that are presented in Bill 149.

For today's purposes, there are three key issues we will raise. They are:

(1) The scope of administrative discretion given to the minister, and therefore the potential for instability and uncertainty.

(2) Vacant commercial and industrial land compensation.

(3) Interim billing.

On the first point, the scope of administrative discretion given to the minister, our first concern, and an overarching one, relates to ministerial approval. The AMCTO finds overwhelming the amount of regulations to be set by the minister and the extent of the minister's involvement in a process that is supposed to be municipally driven. For example, subsection 8(3), which relates to the minister prescribing subclasses of classes of real property, stipulates that nothing in subsection (1) or (2) restricts the discretion of the minister to define what is included in a subclass.

This is but one example of ministerial regulatory powers within the Assessment Act amendment section of Bill 149. There are many others. The government maintains that the new system will provide municipal flexibility and the autonomy necessary to respond to service delivery transfers and funding changes.

Notwithstanding, there are too many parts of the legislation that provide the minister with regulatory powers, when exclusive municipal authority would be more appropriate. Either municipalities are responsible or they aren't. You can't have it both ways. The bill as written obscures responsibility — and thus accountability — between the minister and the municipalities. If you want municipalities to be responsible, then, to paraphrase Winston Churchill, give us the tools and we will do the job.

Another example relates to subsection 32(2) of Bill 149, which adds a number of subsections to section 363 of the Municipal Act Specifically, subsection(16) provides that the minister may make regulations prescribing transition ratios for a restructured municipality. This is more appropriately the purview of the municipality and an area where the minister should only be involved under unusual circumstances. For this reason and in this regard, the AMCTO recommends that the minister's authority be limited to situations where the municipality requests the minister's intervention or where the municipality fails to establish the ratios within 60 days after the return of the final assessment roll.

Another example of unnecessary regulatory authority is in section 35 of Bill 149, which enacts sections 368.2 of the Municipal Act, subsections (3), (4) and (5). The provision provides the minister with the authority to establish graduated tax rates for each of the bands established for commercial properties. The overall effect is that although a council may establish the bands, the minister has the authority to establish the tax rates. AMCTO believes that the establishment of tax rates should be within the authority of the local council. The AMCTO is concerned that matters vital to municipal operation are dependent on ministerial approval or direction.

Our second issue deals with compensation for vacant commercial or industrial land. It is the AMCTO's understanding that the proposed tax rate reductions are intended to compensate for the fact that under the current system, vacant commercial and industrial properties are taxed at the residential mill rate and are not subject to business occupancy tax, or business occupancy tax, as it's being referred to. By having a fixed rate reduction, the province has presumed that the lost revenue from the BOT will be recovered only from the commercial and industrial classes. If a municipality chooses to recover this lost revenue across all classes — and by the very nature of the new transition ratios, the BOT is shared across all classes —

or a select group of classes, then the vacant commercial and industrial properties would be receiving an extra tax concession. We're pretty sure that's not what the province or the minister had in mind, and obviously it will hit municipal revenues hard.

The AMCTO suggests that if the province wishes to provide some form of relief, it should offer a range for the tax reductions, as it has done with the other reduction categories. This would allow municipalities the flexibility to implement a rate reduction which more accurately reflects the classes' proportionate share of the recovered BOT revenue.

Interim billing is the third and final issue we wish to raise today. Interim billing continues to be a significant concern for municipalities. The effect of the current provisions in Bill 149 pertaining to interim billing are to limit municipalities to billing 50%, or a prescribed percentage, of the taxes levied in 1997 on a property-by-property basis. Let me assure you that this would be virtually impossible for municipalities to implement, because municipal taxes are established on a class basis, not on a property-by-property basis.

To alleviate this problem, AMCTO recommends that Bill 149 be amended to permit municipalities the option of interim billing either on the basis of 50% of the total property tax revenues levied in 1997 for all purposes, or on the basis of 50% of the 1997 mill rate. If 50% of the 1997 mill rate is used, then the expected November 1997 tax tape must be used for the purposes of interim billing. This would permit municipalities to use either the new assessment system in the case of the former approach, or the 1997 assessment values for the latter option. The choice would be at the discretion of the municipality.

This approach would go a long way to eliminating concerns related to interim billing and cash flow, thereby protecting the financial integrity of municipal governments in Ontario.

In addition, section 38(1) reads as follows:

"The rate on a property class must be set so that the total amount raised, when the tax rate is levied on the applicable assessment rateable for local municipality purposes, does not exceed 50% of the total amount raised for all purposes in the previous year by the levying of tax rates on all the properties that, in the current year, are in the property class."

The AMCTO suggests that the word "total" be defined. We cannot possibly know what 50% of the previous year's amount will be until all supplementaries and appeals are processed. Some appeals may not be final for several years. In addition, we're not sure whether supplementary levies are to be annualized for inclusion in the total.

What we have addressed today, in the interests of time, are only selected concerns and recommendations regarding the proposed legislation. We have prepared a list of issues of detail already raised with ministry officials, which is supplied to you today in our written submission.

The AMCTO understands and accepts that municipalities are not exempt from the paradigm shift that all governments, the private and public sectors are confronting. The AMCTO is looking forward to continuing to be actively involved in the reform process and offers to bring to the table foresight.

The AMCTO appreciates the opportunity to go on public record and comment on Bill 149. As indicated earlier, the AMCTO is generally supportive of the changes proposed in Bill 149. Our comments are geared to improving and strengthening the government's goals and objectives. An Assessment Act and a Municipal Act that work are good for us all.

We look forward to appearing before this committee again as the process continues to unfold. If you wish to hear our views on any aspect of the reform process, we hope you'll contact us. We are the experts in this field and we are the ones who would like to be able to answer the questions. We thank you for your attention, and we would be pleased to entertain any questions you might have at this time.

The Chair: Thank you very much. We have a little over five minutes per caucus, and we'll begin with the government caucus.

Mr Grimmett: Thank you for your presentation. I want to congratulate you for being very clear in the advice you're giving. The second and third items are similar in nature to those brought forward by a delegation from the treasury office of the city of Toronto, and we certainly will be looking at those.

With respect to the second item, the vacant industrial or commercial land compensation, the reductions in the legislation are meant to replicate the situation as it was for those properties that were not affected by the business occupancy tax. That is the theory involved in the legislation, but we certainly respect your expertise and we're going to take a look at that.

1530

I should let you know that with respect to the first item, the question of ministerial discretion or fiat, we have had a large number of groups come in and say that the municipalities are being given too much discretion and that they would like the minister to simply impose the rates. I think what we're trying for in the legislation is a balance, where we are giving the municipalities some indication of how we'd like to deal with the possibility of shifts between classes or between groups within classes, but we're also giving the municipalities a fair bit of leverage in terms of designing the structure. There is a balance here that we're trying for, but we appreciate your comments, and we'll be taking a close look at them.

Mr Phillips: I'm pleased you're here. We do all the talking around here, and you have to actually make it work. We value your advice, because you may be the only people who have worked through what this is going to mean come April. I'm anticipating that in April, Ontario will suddenly wake up and say, "What in the world happened here?" Small business is going to be hammered. The municipalities will be trying these tiered commercial taxes that are supposed to help small business, but they don't help small business. There are going to be half a

million appeals around the province, and there'll be a lot of people who'll wish they'd appealed but didn't realize they could. In my opinion, this is going to be chaotic, and I think only you people worked it through and said: "What do we have to do here? When will the bills go out? What swings might we see in it?" Nobody else has done it. We haven't been given one single impact study, which I think is totally irresponsible. I don't think any government should be approving legislation without knowing the impact on the people who send us here to do it.

Having said all of that, your organization says, "Implementation on January 1, 1998, is a high-risk situation for the stability and the financial health of the municipal sector." Can you paint that out a little bit? What risk are we taking here, and what are the possible implications?

Mr Bob Heil: The risk the municipalities face: Currently, we're preparing the training manuals for the municipal staff in Ontario. The Association of Municipal Clerks and Treasurers is the leading training agency for all professional staff. We're facing the possibility of in excess of 150 tax rates that will be applied. Right now, we have basically eight, residential and commercial for each of the sections, and we're going to have in excess of 150 rates. We have a tremendous amount of staff in the province, from the city of Toronto down to the smallest municipality in Ontario. We don't believe there's enough time to be able to train everyone.

We've been talking to some of the software companies; they're really going to have a hard time grasping the broad issues and the complexities of the various pieces of legislation to write billing programs, so a lot of it's going to have to be done by hand.

The return of the rolls is going to be so late — I know the Ministry of Finance is working very hard to try to get them to us, but because it's going to be so late, we're going to be under tremendous pressure. We are of the opinion that the interim billing really isn't going to take place properly and legally until late spring, maybe even early summer, in May or June, after the return of the roll in April, which will at that point create some tremendous financial difficulties for municipalities in being able to fund their operations from January through to April.

Mr Phillips: What I was assured of was that the final tax bill would go out in April. I don't think anybody will know what this means. They're going to get their assessment in January. Nobody will know what that means. They'll just get a piece of paper and they won't be able to figure out what it means. When they get their final tax bill is when it hits the fan. But they only have until June 29 to appeal. If there is any danger that the final tax bill does not go out until the end of June, I think the government is going to be dealing with the taxpayers in a fraudulent way, because they will not be able to appeal their assessment until after they get their final tax bill. Is there any danger at all that we could see in some municipalities the final tax bill going out not at the end of April but in June sometime?

Mr Heil: The final assessment roll will not be delivered to us until the end of April, and it's at that point that we have to try to calculate the final rates. Most municipalities won't be billing until after that time.

Mr Phillips: That's unacceptable to people, in my opinion. That has nothing to do with you, but I've been led to believe that people would have three months to appeal their taxes after they got their tax bill. I can now see what the plan is, and that is that you won't get your tax bill until your time to appeal has gone, so people will simply not have been able to appeal it. This is really getting bizarre.

Ms Best: The association has continuously said we needed more time to implement this, to implement it right. That's been a grave concern of ours through both Bills 106 and 149.

Mr Phillips: That single thing is the most important development I've heard in the last four days, actually. I at least had some comfort that people could appeal after they got their final tax bill, but now, if this is — anyway, that's extremely concerning.

What other risks are we running in the financial health of the municipal sector? You mentioned the training time. Is there is a risk of your assessment base being at risk in any way?

Ms Best: There are so many variables right now and there are so many questions about the delivery of the information, anything is in question right now until we have some assurances and see what actually comes through from the Ministry of Revenue. There is a number of questions still outstanding.

Mr Pouliot: Thank you very much. I take your support to be a gesture of goodwill, a belief, hoping that things will go well, a kind of tacit support; you are generally supportive. I tend to be supportive when I know the facts.

Two months before a document of unprecedented consequence is about to hit, I turn to you. You are the people who make it happen. You're the first brigade. I never wish to talk well about you, because we know what the fate is of members of the first brigade in a revolution, so I would encourage you to reserve some judgement. You're so factual, and we don't expect anything less from the standard you have set, but it brings questions.

I just came back from the great riding of Lake Nipigon, which I have the honour of representing, also where I reside. Ask people about the drug formulary, they've never heard of it, and it's two months before. They've heard of general assistance. I've asked them about the cost of land ambulance. They don't know; they might get the bill from someplace. I've asked them about the cost of policing. That they know, but about process. Do they need fewer officers, do they need more? This is two months before.

I've asked them if they were aware that when they set the interim tax levy, they would include the BOT of the previous year in the equation. Some said yes; some, I sensed, were a little tentative. I asked them if they had the ability to exceed the 50%. They said, "No, we don't." I asked them if they knew that Mike the Taxfighter had said that they should be able to pass along a saving of 5% to

10% in the next two years in terms of property tax. Oh, that they knew. They doubted they could. And it goes on and on.

What fascinates me is that the ministry says they fully expect to have upwards of half a million appeals. There are 3.8 million units being reassessed, the largest in North America. You must conduct business in a new fashion starting January 1. I'm appalled, given the importance, and also given that this bill does not work in isolation — it is meshed and webbed with other bills — that we have so little information. Do you have an impact study you can share with me? I don't have one.

1540

All I wish to have, as a representative of our party and the great people of Lake Nipigon, is some information. The tapes, the assessment figures, will come in April. You're already four years into your fiscal year. Do you know what source of funding you will be able to tap for the shortcoming, for the dislocation?

Ms Best: No.

Mr Pouliot: But you're supportive.

Ms Best: The association is on record as supporting government change and supporting processes that will streamline efficiencies. What our job is, as we see it, is to assist in making sure that that legislation, or the improvements, are administratively doable and are able to assist our members. That's where our support is and that's where our concerns lie.

Mr Pouliot: You're very professional, and I admire your ethics, your decorum and your good manners, all of you. When the rubber hits the road — and I'm not a merchant of fear. It gets better. When all is dark, sometimes I can see the stars too, but this is taxing the digestive and assimilating process like never before. Everything is being done under the cover of darkness by regulation. It's not the most democratic and open form of consultation and government, but when you are in a hurry — you see, this agenda is about having the trains run on time. Nothing else matters. If I look at my watch, and the Conservative revolution train leaves at 3 o'clock and my watch says it's 3:32, they're telling me, "Get your watch fixed."

I'm afraid for municipalities. I'm afraid because the degree of uncertainty is unwarranted. I asked them, and I was hoping you would too: "Why don't you stagger it? Why don't you do policing this year, general assistance the next year? Give us time to adjust. Do not overestimate our capacity." I plead with you — I know it's difficult to talk with people like you. Poor people like the ones I represent generally, with you say little. They don't say much. You're the second-last presenters we've had. If Frank Stronach pays us the compliment of a visit, they will listen, but the rest of us —

I want to wish you well. I'm going back to Manitouwadge to talk to my clerk-administrator, and I'm going to say, "This is what your association is doing." He's going to say, "We're going to try our best, but we don't know where we're going, two months before." It's a terrible mess.

Ms Best: We would be happy to comment on any of those other issues, but we were only prepared to comment on Bill 149 today. But we would definitely welcome an invite back, and we'll speak to the other issues as well.

The Chair: Unfortunately, we have run out of time, but I do want to thank you for travelling here today and for your interesting presentation.

LAWRENCE PARK RATEPAYERS' ASSOCIATION

The Chair: Would George Teichman please come forward, director and past president of Lawrence Park Ratepayers' Association. Thank you for coming, and welcome. You'll have half an hour to use as you wish. If after your initial presentation there's time remaining, I'll divide it equally among the three parties for questions. I notice here it says past president of the Lawrence Park Ratepayers' Association. Are you representing the association or yourself today?

Mr George Teichman: I'm representing the association. I might add that I have Mr Arthur Lofsky with me, who is an associate, not from Lawrence Park, who has been working with me on some of these elements, and he would like to spend a little time talking about the tax bill as well. But I am the person representing Lawrence Park Ratepayers.

Thank you, Chair, members. I am a director and past president of Lawrence Park Ratepayers' Association. I also come to you with some experience in the area of assessment, since I have worked in urban planning and development and real estate management for the last 30 years. I am the principal shareholder of Upper Yonge Properties Ltd and Glencairn Properties, which in turn own small strip plazas, industrial malls and residential properties inside and outside of Metro Toronto. The community I call home is North Toronto, which is part of that Toronto which Fortune magazine last November rated as the best city in the world in which to live and work; in other words, the way it is right now.

The concern of Lawrence Park Ratepayers' Association is that current value assessment, the method proposed in Bill 106 for taxing real property, will endanger the economic health of our city. First, however, it is necessary for us to establish that current value assessment is essentially the same as market value assessment. We like to use the term, MVA, so let's not get confused. CVA, which is in Bill 103, is exactly the same thing. The definition of the new term, current value assessment, is essentially the same as section 19(2) of the existing Assessment Act, except that it underscores that valuation should be based on the "fee simple." This is quite ridiculous, because all appraisals address if a property happens to be encumbered. Let's talk about CVA and MVA interchangeably, therefore.

Second, we in Lawrence Park want to make it clear that we also would like improvements to the existing method of assessing property, but to move to a market-value-based method would be unfair and does not make sense. We

believe that the Conservative Party understood this when north and central Toronto voted the Conservatives in during the last provincial election. We were interested in two things that were talked about: reducing the deficit, and killing any introduction of MVA, as the NDP government did, and notice what we did to the NDP. We were assured by promises and letters, such as the one from Al Leach which is attached to my submission. You have it in front of you. He writes to Moore Park and Rosedale homeowners: "My party and I will never support the imposition of MVA in Metro Toronto," period, and we asked him that a number of times in public hearings during the megacity debates. Also attached is Isabel Bassett's election flyer. In it she writes: "The policy of the PC Party has always been that we will never impose market value assessment on Toronto. We remain firm in that position." When I asked Al Leach about this during a packed meeting in February, he tried to duck it by saying that actual value assessment is just terminology, and it's different from market value assessment. Well, we know that current value assessment is equal to actual value assessment is equal to MVA. Don't try to duck it that way.

Third, we want to say why MVA is not fair for the core of a large urban area like the GTA. This notion, which taxes the unrealized potential of residential properties, is not nearly as harmful for the core of smaller cities such as Kitchener, where I used to live, or London. I quite understand why properties don't go up in value in the central areas of places like Kitchener. The selling prices in the cores of these smaller cities are generally no higher than the outlying areas for comparable properties because of the travel distance. The travel distances and times are shorter and therefore do not put economic pressure on these areas. A much fairer method for taxing properties in Metro Toronto would be unit assessment, and you've heard of that many times. Perhaps we could put some weighting factors on for certain locations, certain neighbourhoods. If you want to put a heavier weighting factor on Lawrence Park, fine. We've discussed it; we don't mind.

1550

Attached to my submission is an article from the Globe and Mail on the views of Jane Jacobs, and I'm sure you've heard of her. Last week, there was a great conference held for one week in Toronto. Eminent economists came from Harvard, from Yale, from all over the world to hear Jane Jacobs. She chose to live in Toronto. She came here in the 1960s after writing the book The Death and Life of Great American Cities. I think we've all heard of her and we all respect this lady. I will read some excerpts from her comments in the Globe and Mail from November 19, 1992.

Jane Jacobs is opposed to market value assessment and calls the scheme "nutty."

"'The reassessment proposal would increase taxes for many businesses and residents in the city of Toronto while lowering them for many in Metro's suburban areas. The tax measure will leave Toronto with only two large population groups, the rich and the poor, because of the high levies it will impose on middle-class tenants and homeowners. This tax will have the effect of making the city an impractical place, but not for the richest part of the population or for the most assisted part of the population.

"'This is a very bad situation for the city to get into. This is a kind of rot. Property values in cities are higher than elsewhere because these urban areas are efficient ways of doing everything. This is why people start businesses in cities or go to cities.

"'The very concept of market value assessment, with its idea that somehow there is an unearned value in the city that must be gotten at, is wrong. It attacks the core of the value and the potentiality of that city. Market value assessment will undermine small businesses and the jobs they provide,' Mrs. Jacobs said. She has seen the dying away of small businesses in American cities, often because of exorbitant taxes."

And let us remember that she wrote that book, The Death and Life of Great American Cities, and she is being venerated by economists around the world.

A market-value-based system of assessing property is inconsistent, it's unfair and makes no sense. In no other case are personal assets taxed on the basis of their value. For instance, our stocks and bonds, cars, jewellery and furniture, are not appraised each year. Are you aware of your stocks, your cars, being appraised each year as to their value? To do so would be taxing unrealized wealth, not yearly income, which is associated with a person's share in the GNP and therefore the ability and obligation to pay taxes. Clearly, it is inconsistent and unfair to tax one's total assets of, say, $300,000 which is basically in a residence a person owns, but not to tax another's total assets of $300,000 which is basically in stocks, bonds and nice furniture. It's inconsistent.

But wait: MVA doesn't just tax personal assets in real property, in other words, your equity. MVA, in assessing the value of the property, levies taxes on one's equity plus the mortgage. In other words, you own a house that's worth $400,000 on the market and you have a $300,000 mortgage. You're paying a wealth tax on the $100,000 equity, and you're paying a wealth tax on the $300,000 mortgage, the loan. Can you imagine if you had to do this with your stocks and bonds? What would the Ontario Securities Commission say about that, if you borrow $300,000 to buy stocks and they tax you on the wealth of your stocks based on the loan? It's totally crazy.

In no other case I can think of are people obligated to pay taxes for services received based on the value of their personal assets. This is another aspect of how this thing just doesn't wash. For instance, a driver's license, your vehicle registration, the provincial taxes you pay for each litre of gasoline for your car, have nothing to do with the value of your car, whether it's new or used, and everything to do with the use of your car, in other words, the consumption of the gasoline.

Even in the case of a residence, some of the services delivered to your residence are based entirely on the amount used, such as your heat, your hydro and your water. It's not based on the value of your residence. Sure,

it is more difficult to metre the use of services to a residence in the form of garbage, sewers and fire protection. But surely the delivery of these services has more to do with the size of the building than it does with location, and hence the value of the land on which the building sits. Besides, land closer to the city core is cheaper to service anyway. Those houses that are out in the suburbs really are more expensive to service and they should be treated that way; they should be paying higher taxes, if you want to be accurate about the thing.

Unit assessment is based on the size of the building and the land and is readily available in the existing databanks of municipalities. Any physical change to a building which requires a building permit is automatically fed into the databank for a quick, inexpensive and stable assessment base, without the need for $60 million a year in salaries, plus $40 million overhead, to hire tax collectors who prefer to call themselves assessors. What kind of Common Sense Revolution is this? When you ask a professional assessor what he thinks of MVA, they're trying to protect their jobs; let's face it. It's like asking a fox to lock the door of a chicken coop. Would you ask the fox to lock the door? Obviously, these assessors are trying to protect their jobs, so don't ask them whether they think this makes sense.

Finally, I want to demonstrate the unfairness of MVA by way of photographs which you will find on the last three pages of my submission. In each case, there is a modest house on a small property in North Toronto, and this is compared with a much larger house with garages and family room etc in very attractive areas in the rest of Metro. Property taxes are shown as levied in 1992 and as would have been levied in 1992 if the Ministry of Finance 1988 market value impact study had been implemented. If you recall, we had an impact study done. Based on that experience, I guess, this government does not want to give us impact studies. We have never seen an impact study, but we know the impact is going to be very similar to the study that was done in 1992, based on 1988 figures.

Take a look at them. Take a look, on the first page, at 416 Davisville Avenue, and compare it to the house on the right-hand side, at 16 Elkwood. The house on the left is semi-detached, on an 18-foot-wide lot, three small bedrooms, one bathroom, a mutual driveway that you can't get a car down, unfinished basement. Taxes for 1992, based on 1988 assessment, because that's the last time we had an impact study — you people wouldn't give us one — were $2,478. The property on the right, inside Metro, in a beautiful neighbourhood, at 16 Elkwood, a two-storey detached on a 50-foot lot, not 18, five bedrooms, three bathrooms, double driveway and a garage — the one on the left you can't even drive a car down — had taxes of $2,291. That's less.

The next two pages are similar. On the second page, on the left there's a little two-bedroom bungalow. That bungalow would pay higher taxes than the house on the right. I would like to take you to this neighbourhood on the right. It is truly beautiful. It's down in the Rouge area in Scarborough, down by the lake. It is truly a beautiful neighbourhood, but that house on the right-hand side was valued less than the house on the left because of land value. The house on the left would pay higher taxes.

On page 3, it's a similar situation. A little two-bedroom bungalow that backs on to apartment buildings in a busy area of Yonge and St Clair paid more taxes than the house on the right-hand side.

Is this fair? Does this make sense, this thing called MVA or CVA? Is it consistent with the payment of services for all other personal assets, or is this Harris government going to surprise us with even more legislation which will levy a yearly tax on the current value of our cars? Do they want to tax us in terms of the wealth of our furniture and perhaps even the luggage we're going to have to pack to leave this province if we have this implemented?

The Chair: Thank you very much for your presentation. We have a little under five minutes per caucus for questions.

1600

Mr Arthur Lofsky: I just have something briefly.

The Chair: Take as much time as you want. It's your time.

Mr Lofsky: It's more just on general principles. Bill 149, like almost every other bill introduced by this government, has not been well thought out and is highly antidemocratic. It's antidemocratic because usually governments of the past, when they introduced such sweeping, revolutionary legislation or any sort of legislation, float things about, but this government does not want to do that. It appears that they're trying to hide everything. So I, a card-carrying Conservative, have decided to do everything in my power to fight this government and make sure they're not elected next time around — unless they change their ways.

I was a part of a group earlier this year called Citizens for Local Democracy, and I'd just like to call your attention — I passed it out and made some photocopies — to a program that's on tonight at 7 pm on CBC Man Alive. It's called C for LD Battle for Toronto. There you can watch the behind-the-scenes machinations of our steering committee, with John Sewell and the gang, and you can watch how we, with no resources and the spectre of the huge Queen's Park against us, did a good job of winning the referendum. You'll also see how brute force, brute power, will crush a citizens' movement and ignore 400,000 people. That's my only comment. I think you should direct your questions to my friend George Teichman.

Mr Teichman: Are there any questions?

The Chair: I'm sure there will be. Approximately four minutes per caucus, and we'll begin with the Liberal caucus.

Mr Phillips: Just a side comment on the last speaker: I remember before the election, Mike Harris had his Metro task force, and it was chaired actually by Joyce Trimmer, but Al Leach was a co-chair of it, and I remember very clearly that the conclusion from that was that we will eliminate the Metro level of government and keep the city of Toronto, the city of Scarborough, the city of North York, the city of Etobicoke —

Mr Lofsky: I remember that.

Mr Phillips: The reason I remember it is that it was used locally to reassure people in Scarborough. Al Leach would be still the ex-general manager of TTC, or maybe he'd be working somewhere else, but he certainly wouldn't have gotten elected if he had not said, "We're going to keep the city of Toronto." The other thing he did, which you point out here, is he said to home owners, "My party and I will never support the imposition of market value assessment." As you quite correctly point out, Mr Teichman, in your presentation, they call it current value assessment now, but it is word for word the definition of market value assessment.

Mr Teichman: It's precisely the same thing.

Mr Phillips: It's exactly the same wording, so it's the worst of all worlds. I guess the most charitable thing you can say is that Mr Leach and Mr Harris changed their minds, that they said they would never support the imposition of market value, and they have changed their minds. That I think the public can accept or at least understand — but to say, "We're not imposing market value assessment," when in fact, word for word, current value assessment is the same as market value assessment.

As I say, I look forward to the documentary tonight. I remember clearly. It was called actually Mike Harris's task force on Metropolitan Toronto, and it was that Mike Harris would eliminate the Metro level of government and stay with the six area ones. I always find that unusual when people say to me, "At least Mike does what he says he's going to do." I say, "Whoa."

Mr Teichman: Yes, and you are quite right. It was chaired by Joyce Trimmer, the past mayor of Scarborough, very much loved in Scarborough, and I happen to know that she was asked personally by Mike Harris to run and encouraged to run in the last election, but she decided not to. She was going to devote her efforts to things like this task force. Al Leach was a member of her task force, and he signed the task force findings in agreement with bringing more services and more powers to the local governments at the expense of the Metro level of government.

Mr Phillips: I found it really bizarre and unusual, and frankly, mildly disturbing that suddenly Mike Harris decided to get rid of the city of Scarborough, and then, when the residents of Scarborough and the city of Toronto expressed their view in a referendum, the referendum was simply dismissed as, "Only X per cent of the people voted." If Mike Harris used that criterion for becoming Premier, he would have declined to be Premier, because I still don't have the majority of the people in the province voting for him. I appreciate your bringing forward those two concerns and those two issues.

The Chair: Your time is effectively up, Mr Phillips. Actually we're a little over, so if you want to wrap up please.

Mr Phillips: I guess I'll just wrap up by saying I appreciate them, once again, being here to remind us that what was said before the election isn't what took place after the election.

Mr Pouliot: Thank you for your diligence and your education on Bills 103, 106 and 149. I'm not going to spend too much time on the electoral promise of now Minister Al Breach — I mean Al Leach. It's a telling document. It certainly makes one think. It's now where 90% of the politicians give the other 10% a bad reputation, and I can understand why.

I notice you said at the beginning of your remarks, "Notice what we did to the NDP."

Mr Teichman: I'm sorry I said that.

Mr Pouliot: To my knowledge, we thought about it, we looked at it, and heaven knows that politically we too were not without courage, but we never did impose market value assessment.

Mr Teichman: Correct.

Mr Pouliot: What scares me in your remarks, with the highest of respect, is if we are to be judged on what we think, there is no safe haven, and I would invite some people, before they all come out of the closet, to keep in mind that we need a quorum at Queen's Park.

You seem to say too that it's the rich against us.

Mr Teichman: No, I don't think I've been saying that.

Mr Pouliot: I see the reasonable cloning of Ernesto Che Guevara saying, "Democracy is at stake," and so on. I was a little appalled in our kind of environment that this kind of tone would prevail.

When you present us with what is for you very commonsensical, telling evidence of distortion with these documents, do you factor in the most telling of property value, which is location, location, location?

Mr Teichman: This is precisely my central point, that we should not be putting a wealth tax on location. Some people, that's all they have, that house that's worth $300,000. It's a little semidetached house, and it's the land value. If you knock the house down, it's worth the same; in fact, it might be worth more, because it cost $10,000 to get rid of the house, with the excavator.

What you are doing is putting a wealth tax on location, and the person who's living in that $300,000 house in, say, the Avenue Road and Wilson area is in many respects and many cases far less wealthy than the person who lives down in the Rouge area in a beautiful five-bedroom house. If anybody is to be judged as less poor or more poor, I would think it may be the person in that two-bedroom bungalow.

1610

Mr Pouliot: I appreciate your point; I respect you and your opinion. Over those hearings we get to know presenters very well. I don't wish to be personal, it's really not me, but sometimes people relate better with their own story. When this comes down and becomes law, gets proclaimed, are your personal taxes going to go up or down? You don't seem like an extremely wealthy person to me. You're like me, ordinary people. We're trying to make ends meet. Are your taxes going to go up?

Mr Teichman: My taxes will go up substantially, and I can tell you that we did a spot check in 1992, and under that impact study, the taxes on average would go up 68% in Lawrence Park.

Mr Pouliot: How many thousands of dollars would that be, or hundreds?

Mr Teichman: We're talking about taxes that would go up from an average of about $5,500 up to $8,000.

Mr Pouliot: What's the price of a property there? I don't know that —

Mr Teichman: Again, that should have nothing to do with it, Mr Pouliot.

Mr Pouliot: But I'm just asking. I'm trying to relate what basis they're going to — at $8,000, they must be pretty nice properties. I don't know. I live in Manitouwadge.

Mr Teichman: But if you look at the size of these houses, the size of an average house in Lawrence Park is actually not very large. They're much smaller than the average house that's being built up in Richmond Hill and Markham right now. The average size of a house in Lawrence Park is less than 3,000 square feet. You might find that shocking, but it's true.

Mr Wettlaufer: Hello, Mr Teichman. It's been a number of years since you and I have met. You were a client of mine when you were in Kitchener. You forgot.

I was really happy to hear Mr Phillips be very charitable, because Mr Phillips in 1990 supported market value assessment. In his campaign brochure he said here:

"Property tax reform: Honouring Metro Toronto's request, the provincial government has taken the necessary steps to permit Metro-wide reassessment of property tax under a new assessment of market value assessment. This will ensure equity of tax burden between newer and older homes, bringing substantial savings to taxpayers of Scarborough-Agincourt."

Mr Phillips: That's the point. I didn't run against it.

Mr Wettlaufer: I was just reading it. I'm glad that you support it, Gerry.

Mr Teichman, I wonder if you're not being subjective in the presentation of these properties here. The reason I ask that is I would guess that these homes on Elkwood Drive and Delbeatrice Crescent and Cherrydale Court are worth somewhere between $250,000 and $300,000.

Mr Teichman: They are worth approximately the same, in terms of market value, as the houses on the left. In other words —

Mr Wettlaufer: But about $250,000 to $300,000?

Mr Teichman: Yes, I think that would be fair.

Mr Wettlaufer: The reason I say I think you're being subjective is I'm wondering why you didn't present pictures of homes in Rosedale, for instance, with other older communities other than, say, Davisville and Deloraine and Wanless, because I have a modest $270,000, $280,000 or $290,000 home in Kitchener, and I'm paying as much in taxes as a resident of Rosedale who would have a $1-million or a $1.2-million or $1.3-million home.

Mr Teichman: How big is your house, sir?

Mr Wettlaufer: It's not a real big home.

Mr Teichman: But I'll bet it's larger than the one in Rosedale that you're comparing it to.

Mr Wettlaufer: Oh, no, it is not. It's a 1,700-square-foot bungalow. What I want to tell you is I'm paying over $4,000 a year in taxes; I'm paying about $4,400 or $4,500 a year in property taxes.

Mr Teichman: How large is your lot, sir?

Mr Wettlaufer: It's 55 feet. What I'm telling you is that in Kitchener we have market value assessment, and you do not have it here in Toronto. I'm telling you that MVA or CVA or AVA will apply much more equitably.

Mr Jim Brown (Scarborough West): It's nice to see you guys back here. It seems like a month doesn't go by without your being in the halls of this place.

Mr Teichman: And we're not getting paid; we're volunteers.

Mr Jim Brown: But you know what? You probably have better attendance than some of the members.

I just can't resist talking to you guys. I wish I could afford a house in Moore Park, Lawrence Park or Forest Hill, and if I could, I probably wouldn't mind paying the taxes that you're paying. I'm surprised at Gerry, because in my area in Scarborough, we're probably going to get a tax break, finally, after supporting all the better areas in Metro Toronto, so thank goodness that I can now go to my constituents and say: "Finally it's equal. We're on an equal footing. We're paying our fair share, we're paying less, and we're not carrying all those rich neighbourhoods in Toronto."

Mr Lofsky: Can I respond to that?

The Chair: A brief response. We're a little over time, but please go ahead.

Mr Lofsky: You're breaking this up into rich and poor, wealthy people, talking about a wealth tax.

Mr Jim Brown: I'm just trying to look after my constituents, and this is a good idea.

Mr Teichman: Property taxes should not be levied based on wealth. They should be based on services consumed.

Mr Jim Brown: If we were talking about services, there'd be no tax at all.

The Chair: Thank you for your presentation and thank you for coming today. It was a very stimulating and interesting presentation.

This committee stands adjourned until November 4 at 10 am. We will have clause-by-clause consideration of Bill 149.

The committee adjourned at 1617.

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XC 25
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Telephone 416-325-7400; fax 416-325-7430
Published by the Legislative Assembly of Ontario

Service du Journal des débats
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Toronto ON M7A 1A2
Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 4 November 1997

Mardi 4 novembre 1997

The committee met at 1005 in room 228.

FAIR MUNICIPAL FINANCE ACT, 1997 (No. 2)

LOI DE 1997 SUR LE FINANCEMENT ÉQUITABLE DES MUNICIPALITÉS (n^o 2)

Consideration of Bill 149, An Act to continue the reforms begun by the Fair Municipal Finance Act, 1997 and to make other amendments respecting the financing of local governments / Projet de loi 149, Loi continuant les réformes amorcées par la Loi de 1997 sur le financement équitable des municipalités et apportant d'autres modifications relativement au financement des administrations locales.

Failure of sound system.

Mr Bill Grimmett (Muskoka-Georgian Bay): I would like to speak to you today as you begin clause-by-clause consideration of Bill 149, the Fair Municipal Finance Act (No. 2).

Ontarians know that the property tax system is unfair, inconsistent and outdated. They asked the government to fix the problems in the system, and we are taking action to make the system fair.

Bill 149, combined with measures already passed in May in the Fair Municipal Finance Act, is part of the government's ongoing plan to create a fair, consistent and accountable property tax system in Ontario.

The Fair Municipal Finance Act, Bill 106, was the first stage in bringing fairness back to property taxes in Ontario. It ensures that similar properties with similar value in the same jurisdiction pay similar property taxes. It gives municipalities the tools to ensure fair implementation of the reformed system.

For example, it gives municipalities the flexibility to phase in assessment-related changes over up to eight years, to suit local needs. It ensures that municipalities assist their low-income seniors and persons with disabilities by offering cancellation, deferral or other relief for assessment-related tax increases. Bill 106 gives municipalities increased power to set tax policy to meet their own needs, so long as they do not increase relative tax rates on classes of property that are already taxed unfairly high.

In response to business concerns, Bill 106 eliminated the outdated business occupancy tax. This business tax is based on arbitrary tax rates that have no relation to Ontario's modern business environment.

By getting rid of inequities in the property tax system, we will stimulate economic growth by helping businesses compete on an equal footing. Bill 149 includes specific measures that respond to advice put forward by businesses, municipalities, non-profit organizations and other groups.

Through Bill 149, owners of vacant lands and buildings which currently incur no business occupancy tax will retain a similar tax treatment.

The bill gives municipalities the flexibility to set lower tax rates for lower-valued commercial properties such as small retail strip stores, restaurants and neighbourhood shopping districts to ensure they are not adversely affected.

We recognize that charities and similar organizations play an integral role in the life of communities across Ontario. If Bill 149 becomes law, municipalities will be able to offer such organizations tax rebates of up to 40% when they occupy business property.

We all take pride in Metro Toronto's commercial live theatre industry, the third-largest in the English-speaking world, which attracts 90% of Ontario's live theatre audience. We also know that Metro's large commercial theatres pay higher property taxes than their international competitors and their local publicly owned competitors.

This industry, according to a 1994 Coopers and Lybrand study, contributes some $400 million in tourism and 12,500 direct jobs. Provisions in Bill 149 and an education tax exemption in Bill 160 would ensure that Metro's large commercial theatres pay a level of property tax in line with their international competitors. To level the playing field locally, we are proposing to amend Bill 149 such that competing publicly owned theatres in Metro make payments in lieu of taxes at the same rate when they are used to stage for-profit productions.

If passed, the new city of Toronto will be required to pass a bylaw to allow a decrease of payments in lieu if public and exempt theatres demonstrate that revenue from profitable productions cross-subsidizes not-for-profit activities.

To recognize the vital contribution small privately owned live theatres make to Ontario's world-class live theatre industry, live theatres with fewer than 1,000 seats would be exempted from property taxes.

We'll also be putting forward an amendment today to deal with the concerns raised by the Canadian Opera Company.

Pat Bradley, executive director of the Professional Association of Canadian Theatres, has said, "Bill 149 will provide a more dependable and equitable approach to property taxes for theatre companies across the province."

Dean Ott, general manager of Young People's Theatre, agrees. "Young People's Theatre is a prime example of how the Fair Municipal Finance Act (No. 2) will have a positive effect on a theatre company, which will have a positive effect on the industry, which will solidify Toronto's position as an international theatre destination," he said.

On another international level, our international bridges and tunnels play a vital part in doing business with the United States. By levelling the playing field for all 14 international crossings, Bill 149 would further enhance Ontario's international competitiveness. The new measures in Bill 149 would replace the existing patchwork system of assessing and taxing international bridges and tunnels with a fair and consistent system.

We have consulted with representatives of our international crossings on these proposed changes, and already as a result of our actions, the Peace Bridge Authority in Fort Erie has recently announced the approval of phase I of a $200-million capital expansion project.

We heard concerns about the number of regulations in Bill 149. By dealing with these measures in the legislation, which you will shortly be reviewing, we will offer more certainty to municipalities and taxpayers.

We are open to suggestions for making the legislation more responsive to the needs of local governments and taxpayers. We demonstrated this by proposing amendments at the beginning of second reading to encourage discussion.

We have listened to the concerns of the development industry and concerned municipalities with respect to the fair tax treatment of lands pending development, and we have decided to continue those discussions.

We have also listened to the concerns of the Fair Retail Tax Group with respect to access to assessment information on multi-tenant properties. In response, we are looking at amendments to existing legislation that would ensure access to available information, subject to the privacy rights of others.

The people of Ontario told us that changes were needed. We have responded. Property tax reform is just one measure that will in the long run translate into economic growth, jobs and confidence for the future of our province. We are confident that we are on the right track and that this legislation, if passed, will support our objective to make Ontario a better place in which to live, work and invest.

We've heard from many knowledgeable individuals, among them John Bech-Hansen of the Board of Trade of Metropolitan Toronto, who said that: "The Board of Trade of Metropolitan Toronto commends the provincial government for proceeding to introduce a modernized property assessment system across Ontario. Not since the province assumed responsibility for property assessment in 1970 has any subsequent provincial government shown the courage to act decisively in this critical area."

J. Bradford Nixon, of the Canadian Property Tax Association, Ontario chapter, also stated, "The government is to be commended for recognizing the need for basic assessment and tax reforms."

Clearly, with Bill 149, we are moving in the right direction. We are taking a system that is complicated, frustrating and incomprehensible to taxpayers and making it fair, consistent and understandable. We are simplifying the system so that property owners understand why they are paying what they are paying. Families who are paying more than their fair share of taxes will no longer have to pick up the tab for those who have been paying less than their fair share.

We want to move ahead with the measures in this bill to create a smooth transition for the taxpayers of this province and to put in place the fairness measures which all Ontarians deserve.

Mr Gerry Phillips (Scarborough-Agincourt): Let me start by saying that I think the government has no idea what it's doing here. I used to be a businessperson. I ran businesses; I had 300 employees. I would never have agreed to proceed with this without some idea of what it's going to mean.

I'm always amazed at my colleagues in the Conservative Party, who purport to be business people who understand the bottom line. You're signing a blank cheque here. Mr Wettlaufer, I'll go on record right now as saying I'll be very pleased to be in Kitchener-Waterloo when this hits, and I'll say, "I've warned Mr Wettlaufer." And I warn Mr Rollins. I warn the caucus that you are approving something here of which you have no idea what the impact will be.

I will say that for small business the impact of this will be profound. You've done nothing in this bill to help small business. There's something in the bill to help owners of small buildings, but nothing to help small business. When they see the impact of this, they're going to want some answers from you. We tried to pass a resolution in the Legislature, which Conservative members voted against, to have the impact studies released. It was a motion that was supported by the NDP and ourselves.

Let's look at what this means to real people out there. Do any of you have any idea what it's going to mean to businesses in Belleville and Trenton? You don't. The government knows, the cabinet knows, but you don't. I will just say the elimination of the business occupancy tax means that the commercial and industrial and realty taxes are going to go up 40%. We've been told that. It is going to redistribute the business occupancy tax dramatically and it's going to hit small businesses.

I was late for this meeting because I had a phone call from someone desperate because an amendment the government proposes is wrong. Here we are having a profound impact on organizations and people and operations, and the amendment the government is trying to bring

forward is wrong. I gather they're going to bring forward some additional amendments, seeking all-party agreement and they may very well get that.

My point is this: You are making the same mistake here that you made in Bill 136, Bill 140, the omnibus bill, the megacity bill, virtually every bill that has been introduced. The back bench must recognize this. It has not been thought through. No one has given the members of the Legislature the information you need to make these decisions. All we're being told is, "Everybody agrees there has to be change in the property tax system in Ontario, so you, members of the Legislature, buy what we're selling because we're only selling one thing," and that's this bill.

The second area I'm always amazed the Conservative back bench have not raised more issues about is setting tax policy by regulation. Frankly, it is wrong. I've often said if Bob Rae were trying to put this bill through, Mike Harris would be sitting here — of course he would have notified all the media he was going to do something dramatic — and he would be filibustering — perhaps he'd be reading off all the rivers and streams in Ontario — because, he would say, no government has the right to give itself this power.

May I say it is breathtaking to me that the government would give itself the authority to set a third of property taxes by minister's regulation; just pick up a pen and he's going to set — over half the business taxes in Trenton will be set in private at a cabinet table by Mike Harris. You may say, "I like Mike, so that's okay," but you are passing laws for the future, so it may very well not be Mike Harris — it won't be Mike Harris some time in the future — and some other government is going to, by regulation, set over half the property taxes in Trenton with no discussion, no debate, nothing, just by what's called minister's regulation.

When you're in opposition it gets a little bit frustrating. I keep track of these things, and so far over the last six years I've won zero votes and the government has won 350 votes, so you've got the power to do it. But if I were in the Conservative backbenchers' shoes, I'd say: "Listen, I'm going to have to explain this thing and I'm going to have to answer to my local chamber. I'm going to have to answer to my local organizations and I want to know what the impact is going to be." I guarantee you, the impact of this is to shift taxes off large businesses on to small businesses.

The last thing I'll say is that I was actually quite surprised that when the municipal financial officials were in to see us the final day of hearings, I think it was the Thursday hearings, they indicated that the final tax bill will not go out until, in their estimation, late June 1998 at the earliest, maybe later. That is beyond the time when appeals can be registered. We've got an amendment in here that says that at the very least you should allow people to appeal after they get their final tax bill. The light will go off when people get their final tax bill in 1998 and find out what has happened to them. That doesn't have to be, because the government has impact studies, which is jargon for, "How is this going to impact on my local community?"

1020

As I say, my background is business and I'm being asked to sign a blank cheque here. I'm being forced to sign a blank cheque; I have no choice, because the government will put this through. But the Conservative back bench do. You can go to caucus and say, "Why are you forcing us to do this without giving us the evidence to prove that we're not going to be hung out to dry when this thing finally hits the streets?"

There we are, Mr Chair. As I say, I look forward to the clause-by-clause. The fact that we've got 35 government amendments and counting indicates that this thing is not particularly well drafted, in spite of the fact that the government has given itself virtually unlimited authority to set tax policy by regulation anyway. I would just say I will keep this Hansard and next July and August be travelling the province to tell property taxpayers that this is because the government wouldn't give the Conservative back bench the information they needed to make a reasoned decision.

M. Gilles Pouliot (Lac-Nipigon) : Bonjour, Monsieur le Président and members of the committee. Should I be appalled and shocked, representing a party when — actually confirmed it with some 42 amendments. Does it tell us that a piece of legislation, a bill, was drafted in haste? Does it remind us that a better business plan, using the mantra's jargon, would have been preferable? Does it address, through focus groups, feasibility studies, impact studies? We don't know because the commissar, the members of the politburo, operate best under a veil of secrecy. They're a lot faster when it comes to hitting the poor. Mind you, that too they do by regulation. It's only as they move up the food chain to satisfy the insatiable appetite of their ill-fated agenda that they encounter resistance.

My colleague the parliamentary assistant has chosen to parallel with some of Bill 160, and he's absolutely right. Bill 160 is being opposed by the majority of Ontarians. You see, it's not so much Bill 160; it's the whole mantra, it's the whole manifesto. You either like or dislike Mike Harris. To some people, I've heard it said, they are thugs and bullies. It's not that they want to hurt the marginalized; it's just that the agenda demands that they do so.

This downloading bill, with its 42 amendments at present, is not so surprising. You had 160 amendments on Bill 26. That's where it all started. C'est là que tout a commencé. It began and then you moved up, you made a volte-face on Bill 136. You don't know where you're going; it's as simple as that. Less than two months before implementation, January 1, who pays for what? Do the municipalities know? Who's going to make up the slack? What about interim tax levy? What about 600,000 appeals? What about 3.8 million units being assessed and reassessed? It starts in all our neighbourhoods on January 1, less than two months from today. We still don't have answers to the many questions that were raised by the presenters time and time again.

This is a mess. You talk about an opportunity for municipalities. It's always them, but they don't have opportunities if they have a shortfall of money. You say, "It's okay, you can take eight years to enact rebates and increases." Commerce, business, doesn't work that way. You have as much latitude as you have money, as your credit line will allow you to do. So if you have a rebate, you might have to wait, but if a municipality is in need of money, it has an obligation to go and raise the money and it shall not wait. There's no alternative there.

It hasn't been worked out. We don't have one impact study. The government keeps saying with great fanfare that this is revenue-neutral, that taxes will not go up. We know there's $1 billion being taken out of it. We know that. We know there's $5.4 billion to be reconciled, aside from the deficit, all on borrowed money — the tax break plus the deficit. We all know that; it's not a secret to anyone. But you've advanced so far without a timetable, without giving the opportunity to people to digest, to assimilate the changes. You've created a climate of anxiety politically, at your own peril. You will wear it well, and you're so deserving.

The back bench don't have a say. They're like members of the first brigade as they near the abyss. You have a few mandarins who control the agenda and that's all there is to it. You can smile, you can laugh. Go out there on your way to the Mercedes-Benz dealer at 761 Dundas Street East and stop at Regent Park before you order your M320, 3.2-litre.

Mr Wayne Wettlaufer (Kitchener): How do you know where it is?

Mr Pouliot: I know what I'm talking about. I'm talking about Regent Park.

Open your eyes. You've scared the living daylights out of people. How will this work? Go and ask the municipalities. I live in Manitouwadge, 800 miles north of here. What's the cost of policing, starting January 1? Our taxes will go up by $400 to $500 per unit, because we pay for social housing, ambulance services, library and policing. We should know who's going to make up the slack. It's supposed to be revenue-neutral. Best wishes.

You have created a mess of the highest order. When the assessments, when the tapes come in, in April, you will have 600,000 assessments. You will have class assessments for the first time. You will have a business community that's up in arms. I know how the commissars will deal with that.

But you see, the bleeding will not be controlled forever. Go out there. You've got 2.1 million children who should be at school. You have 128,000 of the most educated people in our province, who in unison are saying, "Commissars, put the brakes on." Those are law-abiding citizens. For the most part, when it comes to confrontation, timids are not used to it. I directed two strikes at a mine site; I was strike director. Our task was a lot simpler. There was the employer, the barons, and there was us miners on the picket lines, pointe finale, one common denominator. But we didn't hurt people; we listened. Our books were open.

1030

You still have time, but I have no faith. We don't present one amendment. It's not because we give up; it's because we are against the whole bill. It makes no sense, by virtue of not having a timetable attached to it. It's too much at one time, because it's part of your overall agenda and it's all arriving at the same time.

The Chair (Mr Terence H. Young): Thank you, Mr Pouliot. Further comments and questions? There's a delegation at the table. I would like the gentlemen to introduce themselves for the record, please; your name and your position.

Mr Gerry Sholtack: My name is Gerry Sholtack. I am senior counsel in the Ministry of Finance.

Mr Almos Tassonyi: I am Almos Tassonyi. I am a senior economist with the municipal finance branch of the Ministry of Municipal Affairs and Housing.

Mr Bill Wong: I am Bill Wong, a manager in the Ministry of Finance.

The Chair: Thank you very much. We will now go to clause-by-clause consideration of the bill. I have no proposed amendments to section 1. Comments or questions? Shall section 1 carry? Carried.

Section 2. I have a proposed amendment from the government. Mr Grimmett, please.

Mr Grimmett: I move that subsection 2(1) of the bill be struck out.

In explanation, the regulatory power to define eligible small theatres is removed because the definition is being moved to the legislation itself.

The Chair: Further comments or questions? Shall the amendment carry? Carried.

Shall section 2, as amended, carry? Carried.

Section 3. I have a Liberal motion on paragraph 1.1 of section 3 of the Assessment Act. Mr Phillips?

Mr Phillips: I move that subsection 3(1) of the bill be amended by adding the following as a paragraph of section 3 of the Assessment Act:

"1.1 Property held in trust for a band or body of Indians."

The Chair: Comments or questions?

Mr Phillips: Yes. By the way, this language is identical to the language that exists currently in the Assessment Act. We have just simply moved that that same language be put back in the Assessment Act. I'd prefer the words "first nations" over "Indians," but that's the language that was used in the Assessment Act.

You may recall that the first nations came before us and outlined, I think, eight or nine major initiatives the government has taken since elected that have the effect of substantially negatively affecting our first nations. This is the ninth one of them and I think it is a punitive measure. It looks like it's designed to further provoke relationships between the first nations and the government of Ontario.

It is something where there is not a substantial amount of money involved for the province but a huge amount of goodwill lost with our first nations by taking this step. It seems to me that if the government wants to make a move like this, it should be done after consultation and as a part of a broader look at dealing with our first nations. I see

this, frankly, as a mean-spirited move by the government to simply further provoke an already uneasy situation with the first nations.

I don't know why the government is doing it. I think it's completely unnecessary. This restores it to the way that it currently exists and allows the government to conduct some meaningful negotiations with the first nations.

Mr Pouliot: We echo the sentiment and we will be supporting the Liberal motion. We too would have preferred the wording to reflect the reality by way of "first nation" in lieu if "Indians." What's at stake here is a mere $125,000, a mere bagatelle, trivia, an afterthought in financial matters, but much more important, as my friend and colleague the Liberal critic has mentioned, is the goodwill. It's what you're doing to our first Canadians that represents no value whatsoever.

There again, and the words aren't too strong, this government is not a friend of first nations. It has a great deal of difficulty acquiescing to the long-standing tradition. For as long as the sun shines and the river flows, they will remind us of the contribution that is still here; here first, the constitutional guarantees, but then the government by design just brushes them aside. There again, it is hardly a surprise. They don't have, in French we say, un droit de cité, for they are not very rich. They represent the poorest people in our great land. The $125,000 is your language; tradition, constitutional guarantees and the right to prosper is theirs. I will be supporting the Liberal motion and I congratulate them on their courageous attempt to have the bill amended.

Mr Grimmett: I won't be able to support the proposed amendment. I want to remind the members that this legislation is all about bringing more fairness and equity to the assessment system. If this amendment were passed, it would overturn a provision in Bill 149 designed to restore a level playing field to the property tax system.

This amendment would make Ontario the only jurisdiction in Canada that does not restrict its property tax exemption to reserve lands. Allowing this amendment will give unfair advantage to new off-reserve properties over other similar taxable properties. I want to remind the members as well that the current section in Bill 149 allows the grandparenting of those properties already exempt. I will not be supporting the amendment.

The Chair: Further comments, questions? Shall the amendment carry?

Mr Phillips: Recorded vote.

Ayes

Phillips, Pouliot.

Nays

Barrett, Grimmett, Rollins, Wettlaufer.

The Chair: The amendment is defeated. We now go to the government motion, which is number 3. Mr Grimmett, please.

Mr Grimmett: I move that paragraph 3 of section 3 of the Assessment Act, as set out in subsection 3(1) of the bill, be amended by striking out "including a churchyard" in the second and third lines and substituting "and a churchyard, cemetery or burying ground."

If I could just provide some background, the suggested amendment would clarify that churchyards, cemeteries or burial grounds owned by a church or religious organizations or leased to it by another church or religious organization is exempt from taxation.

The Chair: Further comments or questions? Shall the amendment carry? The amendment is carried.

We now go to a government motion, which is number 4 in your package. Mr Grimmett, please.

Mr Grimmett: I move that paragraph 4 of section 3 of the Assessment Act, as set out in subsection 3(1) of the bill, be amended by striking out "if the owner of the land is exempt from taxation" at the end and substituting "if the land would be exempt from taxation if it was occupied by the owner."

The explanation for that is that the previous wording has suggested that owners are exempt but in fact the amendment clarifies that it is the land that is meant to be exempt.

The Chair: Any further comments or questions? Shall the amendment carry? The amendment is carried. We now go to a government motion, which is number 5 in your package.

Mr Grimmett: I move that paragraph 5 of section 3 of the Assessment Act, as set out in subsection 3(1) of the bill, be amended by striking out "if the owner of the land is exempt from taxation" at the end of the first sentence and substituting "if the land would be exempt from taxation if it was occupied by the owner."

Again, we're clarifying that it is the land that is exempt and not the owner.

1040

The Chair: Comments or questions? Shall the amendment carry? It is carried.

We will now go to government motion number 6 in your package.

Mr Grimmett: I move that subparagraph 12.iii of section 3 of the Assessment Act, as set out in subsection 3(1) of the bill, be struck out and the following substituted:

"iii. any charitable, non-profit philanthropic corporation organized for the relief of the poor if the corporation is supported in part by public funds."

To clarify, there's no change to the original intent of the paragraph, but from the discussion that we had in public hearings, we want to make sure that the current exemption regarding corporations is very clear on which corporations are in fact exempt.

The Chair: Further comments or questions?

Mr Pouliot: Mr Grimmett, I need your help. I'm seeking clarification of "any charitable, non-profit, philanthropic corporation organized for the relief of the poor." Your focus is that their reason for being is the relief of the poor. What's the difference, therefore, between any

charitable, non-profit — you give yourself some qualities that are wanting. "Any charitable, non-profit corporation"; why "philanthropic"?

Mr Grimmett: Can I have Mr Sholtack provide us with a better legal explanation for this.

Mr Sholtack: "Philanthropic" has traditionally been included in the exemption. "Philanthropic" is a general word meaning relief of mankind, sort of a broad concept that really doesn't provide any restriction. It's fairly general in its intent.

Mr Pouliot: So is your answer, with high respect. If an ordinary citizen was to give $100, that is an act of charity, but if Magna International, through Mr Stronach, gives $1 million, are we getting closer to philanthropic in the first instance?

Mr Sholtack: It would still need to be charitable, of course, the organization. We're talking about the organization itself rather than the person who gives the money. So the organization itself has to be charitable, non-profit and philanthropic. These are traditional words that have been used to describe the types of organizations that have been exempt under this paragraph for many decades.

The Chair: Further comments or questions? Shall the amendment carry? Carried.

We now go to government motion number 7 in your package.

Mr Grimmett: I move that paragraph 26 of section 3 of the Assessment Act, as set out in subsection 3(2) of the bill, be struck out and the following substituted:

"Land used as a theatre that contains fewer than 1,000 seats and that is used on a total of at least 183 days in the taxation year to present live performances of drama, comedy, music or dance, but not including land used as a dinner theatre, nightclub, tavern, cocktail lounge, bar, striptease club or similar establishment. This paragraph does not apply to a building that was converted to a theatre unless the conversion involved modifications to the building."

This is another example of an amendment that would remove the ministerial regulatory power because the definition of eligible small theatres is going to be right in the legislation.

The Chair: Comments or questions?

Mr Phillips: Just a question on why it has to be used at least 183 days.

Mr Grimmett: Could I ask someone from the ministry to provide a better explanation than I can. Mr Wong?

Mr Wong: The reason why it is for 183 days is to ensure that these theatres are permanent in nature, not the one that is put up and just puts on one or two days of shows per year. It's the summer theatres that put on shows that are not used for other profit-type organizations; are not used, for instance, for the non-play-type organizations. If you use it for doing not theatrical work but use it for doing seminars, that's not counted as your criteria.

Mr Phillips: So summer theatre could be eliminated with this, if it's just a summer theatre.

Mr Sholtack: It is our interpretation that as long as the theatre was not used for any other purposes when it was dark, it would still qualify.

Mr Phillips: But it has to be used a total of at least 183 days.

Mr Sholtack: Right.

Mr Phillips: So summer theatre that went 150 days wouldn't be eligible.

Mr Sholtack: It depends on what it was the other part of the year.

Mr Phillips: Closed.

Mr Sholtack: The intent of this provision is that we get true theatres and not something that may be used only for a few months as a theatre but for the rest of the year as something else. The words "at least 183 days" are there in lieu of other kinds of descriptions, such as "predominantly" or "primarily" or "mainly." This provides a little more specificity for what we need.

Mr Phillips: It's a mistake, but okay.

Mr Pouliot: "But not including land used as a dinner theatre, nightclub, tavern, cocktail lounge, bar" etc: If the cocktail lounge is in the lobby, is that okay?

Mr Sholtack: The exclusions are for things that are not traditionally theatres. I guess they could have entertainment, but this is not theatre-type entertainment so they are excluded from the exemption.

Mr Pouliot: But suppose someone fits the bill, but at pre-performance and intermission time they mostly have now sort of a cocktail lounge-bar situation. In fact, in some cases you can buy the ticket for half-time; that way you beat the lineup. If they are less than 1,000 seats, if they satisfy the spirit, wording and intent of the bill, they would still qualify; they won't have to close their little building?

Mr Sholtack: No. I don't think the fact that they serve liquor during the intermission would turn the land into a cocktail lounge. "Cocktail lounge" has a fairly specific meaning as an ongoing place where people drink. Just getting a drink in intermission — because their predominant use is for providing performances. So the answer is no, just because they serve liquor and other drinks during an intermission of a performance, that will not disqualify them. They'll still be eligible if that's all they do.

Dinner theatres are designed to entertain plus operate as a restaurant. People are fed while there's entertainment. Those organizations are not intended to be benefited because they're primarily providing food and liquor in a restaurant setting and having a performance done as part of that. We're trying to benefit true theatres that are organized to provide performances only.

Mr Pouliot: I thank you. Chair, if I may go from the technical to the political, I find it ironic that the present administration has slashed, cut, in fact gutted the arts budget and yet they are imposing their will on municipalities, and municipalities do not have a choice here, for it has been decreed that they shall enact this legislation. For the theatre, I'm fully sympathetic. It's well intended. But you have a typical case of a government cutting the budget, which is the transfers from the provincial funds to

the theatre groups, the arts groups, and yet it doesn't cost them a penny to impose, by legislation, a situation where the municipalities can ill afford it.

It's one more example of the cheap shell game being played by this government. On the one hand you slash the budget and on the other hand you pass legislation to force the municipalities to give them the money, what you should have been doing in the first place. It's another one of your callous and cynical, sinister ploys. No wonder we're against the whole bill. It's so thinly veiled. People can see what's happening.

1050

The Chair: Further comments and questions?

Mr Grimmett: I just want to clarify a point there. Mr Sholtack has said that the purpose of the policy decision around this amendment was to make sure that true theatres benefit from the exemption. We don't want this exemption to spread more broadly than that. The 183 days includes what people in the business call dark time. We heard from a number of presenters who indicated they would have a show on for five or six weeks, then they would have a period of dark time, when the theatre is effectively closed down but inside the theatre there continue to be people working on a new production, either putting up new props or what have you.

This is designed to benefit those properties that are true theatres. The 183-day rule provides some clarity and an opportunity for those people to plan so they know what their overhead is going to be.

Mr Phillips: So if they're rehearsing for 50 days, that's part of the 183 days.

Mr Grimmett: That's my understanding of what dark time is. Part of the 183 days is to include dark time.

The Chair: Further comments or questions?

Shall the motion carry? It's carried.

We're now going to government motion 8 in your package.

Mr Grimmett: Before I read the motion, I wonder if we could have some discussion among the caucuses present. I'm requesting unanimous consent from all the members of the committee that for the purpose of dealing with this particular amendment, we permit ourselves to waive the rules for the purpose of deleting from this amendment some wording which — I'll provide an explanation that I have received from the ministry.

When the Canadian Opera Company came before us, they expressed their concern about their property. There was a lot of sympathetic discussion. We would like to provide them with some relief through this amendment.

What happened was that the ministry people, when drafting the amendment, called the Canadian Opera Company and discussed the wording in the amendment with their counsel. The wording that we would ask unanimous consent to delete, if you have the amendment in front of you, is about two thirds of the way down where it says, "to which part III of the Corporations Act applies."

That wording was approved initially, I understand — I didn't have the discussion on the phone, so I'm only hearing this second hand, but I understand it's correct — was approved by counsel for the Canadian Opera Company. The proposed amendment then went forward, was tabled, the time for tabling motions passed and then the ministry again heard from the Canadian Opera Company, who advised that in fact the Canadian Opera Company was not incorporated under the Corporations Act, but it was incorporated under federal legislation.

What I'm saying to my fellow members is that I believe deleting that wording from this amendment will fall under the exception to the rules allowing for unanimous consent to change technical or drafting errors. I would think there is enough goodwill among us that we recognize that the purpose of the amendment is to allow the Canadian Opera Company to fall within the exemptions in this legislation.

I should be fair in saying that in asking some of the clerks about this, they may not necessarily agree with my interpretation of the rules, so I'm just putting everybody on notice that this is an opportunity for us to have a discussion about just what we're allowed to do under unanimous consent.

The Chair: From the chair, I will allow a discussion. I would like to hear comments and questions, but I'd like to tell you what my dilemma is. The time allocation motion asks that all proposed amendments be tabled with the clerk by 5 pm on the fifth calendar day following the final day of consideration, which has passed. So the question is, is this an amendment which is substantive to the original amendment which Mr Grimmett is proposing? There are precedents of amendments which are editorial. That's the question that I have to decide. I would like to hear comments and questions.

Mr Phillips: We don't have any difficulty with the proposed change. I accept at face value that it was a drafting error, so our caucus won't object to unanimous agreement to modify it.

I frankly can't comment on the other issue, which is, just what are we permitted to do? I frankly don't know how to resolve that, because I'm no expert on it. I accept that there's some line that's drawn somewhere, but we're anxious to accommodate the opera organization. That happens to be why I was a little bit late; I was talking to a person who was concerned about it. So we have no difficulty giving approval to proceed with the amendment. On the broader issue you'll have to look for some advice somewhere else.

Mr Pouliot: Actually, it's not this difficult, Mr Chair, and yes, I will resist the lure, the temptation. Simply put, through my caucus, I'm not here to help you in any possible way. I will not think less of myself if I say no to this. But I'm torn. It so happens that as much as I hate what is being done here, I love the opera company and I find myself supporting it. We too will be seeking unanimous consent. That's not the intent. Our intent is when it hits the marketplace. But the Canadian Opera Company came here, they took their time and we've all benefited and will continue to benefit. They need a gentle hand, so we will be supporting the government's request for unanimous consent.

Mr Wettlaufer: Mr Chair, it's not a matter of whether or not we support the opera company. I think your initial statement is what we have to address, and that is whether this is a substantive motion or whether it's an editorial motion. What we have to say is, if we delete the words "to which part III of the Corporations Act applies," are they editorial in nature or are they substantive? I think we have to address what was the intent of the initial amendment.

In looking at it, the words "part III of the Corporations Act" are somewhat exclusive, yet they are not necessarily affecting the total bill that much, they're not affecting the amendment that much. I believe they could be construed as being editorial, that the amendment could be editorial. That would be my opinion, that we are dealing with an editorial motion.

Mr Pouliot: Yes, I too would take it in that tone, that it is indeed editorial. But this has nothing to do with the 1,000 seats in your first line, because our indication is that it would be somewhat above 2,000? There's no conflict here?

Interjection: No.

Mr Pouliot: Okay.

Mr Grimmett: Just to assist, I wonder if I could pass on a little information to the committee on what happened at another committee on a somewhat similar issue. This is Hansard from Thursday, 28 August, 1997.

Mr Phillips: Haven't you already won?

Mr Grimmett: Maybe we have, but I'll just pass this on. In that committee, the Chair looked at a similar request and in discussing the issue indicated that where it is a drafting error:

"Errors affect all three caucuses through no fault of individual members of those caucuses. There's no question that each caucus filed their amendments at the scheduled time and was not late in filing those amendments. I'm proposing that these errors be rectified by seeking unanimous consent to substitute the amendments that were drafted incorrectly with a properly drafted package. I understand that these new amendments do not contain anything that was not intended in the improperly drafted amendments previously distributed."

I think that is the flavour of the same thing that's happening today. The parties are agreed that we're not trying to change the intention at all. We're simply trying to fit the Canadian Opera Company into the relief that this act provides.

Mr Phillips: Stop selling. You're going to get in trouble.

The Chair: Further comments or questions?

Mr Pouliot: I don't want this to be a war, but I've been here for 13 years. Mr Grimmett, with respect, that's a bit of a stretch in terms of a drafting error. It is one of omission and you want to have them inclusive. We're all in support and you were doing well, but to quote from precedent — you're a lawyer by profession. You're also a politician by profession, oh my God. Surely you can do better. That was a stretch, but we accept your explanation.

The Chair: Further comments or questions?

Mr Wettlaufer: Sign it. Close the deal.

Mr Phillips: It's got white walls. Do you want the white walls?

The Chair: There will be a five-minute recess.

The committee recessed from 1102 to 1112.

The Chair: The committee is back in session. Mr Grimmett has received unanimous consent to take out eight words of his government motion number 8 and has received it. My ruling is that this an editorial change.

Mr Grimmett: Thank you, Mr Chair. Just to explain what I'll do here now, I'm going to be moving the motion that you have before you on page 8, or motion 8, and I'm going to leave out the wording that we've discussed.

I move that section 3 of the bill be amended by adding the following subsection:

"(2.1) Section 3 of the act, as amended by the Statutes of Ontario, 1997, chapter 5, section 4, is amended by adding the following paragraph:

"27. Land used as a theatre that contains 1,000 seats or more and that is used to present, on a total of at least 183 days in the taxation year, live performances of drama, comedy, music or dance, including opera or ballet, that are not presented with the intention of generating profit. This paragraph applies only if the theatre is owned and operated by a non-profit corporation without share capital. This paragraph does not apply to land used as a dinner theatre, nightclub, tavern, cocktail lounge, bar, striptease club or similar establishment."

The Chair: Comments and questions. Mr Grimmett, did you want to add anything further?

Mr Phillips: On a different part of that, there was a discussion with the Hummingbird, Roy Thomson Hall, Massey Hall and the North York Centre about their concerns on the 183 days. I'm not sure whether it's this section that applies to them or not. They were concerned that, as I recall it, if they exceeded 183 days they were subject to some tax liability. I'm not sure whether it's this section or another section.

Mr Grimmett: If I could comment on that, Mr Chair, this section is not the one that deals with that issue.

Mr Phillips: Okay. Thank you.

The Chair: Further comments or questions? Shall government motion number 8, with its editorial change, be carried? Carried.

We will now move to a Liberal motion. It's number 9 in your kit.

Mr Phillips: This was designed to accomplish what the government motion accomplished so we will withdraw this amendment.

The Chair: We will now move to Liberal motion number 10 in your package.

Mr Phillips: I move that subsection 3(3) of the bill be amended by adding the following as a subsection of section 3 of the Assessment Act:

"Charities renting from churches, charities, etc

"(1.1) Land that would be exempt under paragraph 11 or 12 of subsection (1) if the entity that uses and occupies the land also owned it, is exempt from taxation if the land is owned by a church or religious organization or by an entity described in paragraph 11 or 12 of subsection (1)."

By way of explanation, you may recall an organization from Ottawa that was in to see us — Daybreak is my recollection of its name — where they performed worthwhile community activities, halfway house sort of activities, and it seems they were caught between the cracks because they were renting property from a church and had tax liability as a result of that. This is designed to correct what I think is a mistake in the legislation, where charitable groups like Daybreak are renting from charitable groups, to prevent tax liabilities from being incurred.

Mr Pouliot: I recall vividly and was made more aware of the good deeds of the presenter, one who had travelled by car from Ottawa, again at his own expense for they don't have any money. From time to time, we all agree that you fall through the cracks. It was never intended to hit Daybreak. They're minute. They exist by necessity. They really represent what is best, often forgotten in our busy life. The little brochure, the humble brochure illustrated what has happened. This is not an organization that is there by choice; it's a group of good Samaritans putting their best foot forward and they would be hurt if by way of omission, because of political posturing, they would become victims by ricochet. I'm somewhat surprised that someone, or they themselves, noticed the intricacies in the bill. But it serves no purpose to omit them, and I certainly agree that it should be through the Liberal motion that their good deeds be recognized. I will support the amendment.

Mr Grimmett: I was here as well and listened to the presentation made by Daybreak. Unfortunately, I'm not prepared to support the motion at this time. The government has looked into this issue and we feel that if this motion passed we would create a lot of problems, because it could result in unfair tax treatment when non-profit corporations located in taxable premises pay tax and their non-profit corporate brothers occupying church lands or other lands owned by religious organizations don't pay tax. We feel this would expand the exemptions too wide so we're not prepared to support the amendment.

1120

Mr Pouliot: For what it's worth, God damn it, we really don't tread the same bloody circles. In my humble way I probably have — this is hard to say. You're not the poorest of the poor. I don't know, but by way of circumstances and good accounting, I can hold myself in good stead with any one of you. What is to be gained by hitting Daybreak? Somebody has decreed that if we do it for them — and then 10 minutes ago, with the help of a delegation, "Oh yes, we did, we sought unanimous consent." The clerks at the table with counsel recessed and came back and made the appropriate amendments.

Daybreak is not going to be back. They're going to get it right in the neck. They don't have the kind of resources or pressures to apply, so brush them off with legalese and justify our conscience, "If we do it for them we will have to do it for everybody else." No, you don't have to do it for everybody else. Daybreak came here with all the sincerity at their command. They are a voice, a very small one. Their work is not recognized, they're not going to get medals for it. It's their daily bread. The people are challenged, they go to them. They are a victim of circumstances just as often as they are a victim and have to wear and bear their condition. They have, with a few sticks of furniture, the most humble of shelter — well, good luck. I mean, really, if this is the human dimension, a social conscience, that's where we certainly differ. I have difficulties with that.

The Chair: Further comments or questions?

Mr Phillips: A recorded vote.

Ayes

Phillips, Pouliot.

Nays

Barrett, Grimmett, Rollins, Wettlaufer.

The Chair: We'll now move to government motion number.

Mr Grimmett: I move that the definition of "land used for the purposes of the bridge or tunnel" in subsection 3(3) of the Assessment Act, as set out in subsection 3(3) of the bill, be struck out and the following substituted:

"'land used for the purposes of the bridge or tunnel' includes land at the end of the bridge or tunnel used in connection with the bridge or tunnel, including duty-free stores."

Just an explanation: The previous wording was too broad. It's felt that this amendment clarifies that the land at the end of the bridge or tunnel, including duty-free shops, will be considered to be land used in connection with the bridge or tunnel and assessed accordingly. These entities are subject to municipal tax but are not subject to education tax.

The Chair: Comments or questions? Shall the motion carry? The motion is carried.

Shall section 3, as amended, carry? Section 3 is carried.

I have no proposed amendments to section 4. Shall section 4 carry? It's carried.

Section 5: I have a government motion, number 12 in your package.

Mr Grimmett: I move that paragraph 1 of subsection 8(1) of the Assessment Act, as set out in section 5 of the bill, be amended by striking out "One or two subclasses" in the first line and substituting "Up to three subclasses."

By way of explanation, this provision amends the bill to create up to three subclasses of farm land awaiting development rather than one or two subclasses.

The Chair: Comments or questions? Shall the amendment carry? Carried.

Shall section 5, as amended, carry? Carried.

I have no proposed amendments to sections 6 to 8. Shall sections 6 to 8 carry? Carried.

Section 9: I have a government motion, number 13 in your package.

Mr Grimmett: I move that the bill be amended by adding the following section:

"9.1 The act is amended by adding the following section:

"Reduced assessment for farm land awaiting development

"19.4(1) The assessed value of property in the subclasses prescribed under paragraph 1 of subsection 8(1) shall be reduced by the percentage prescribed by the minister, if any.

"Phasing out by municipalities

"(2) The council of a municipality may, by bylaw, decrease the reduction under subsection (1) by the number of percentage points prescribed by the minister per taxation year subject to the following:

"1. A decrease of the reduction applies to every taxation year after the taxation year with respect to which the decrease first applied.

"2. To apply with respect to a taxation year, a bylaw must be passed before November 1 of the previous year. As of November 1 of the previous year the decrease is irrevocable.

"3. No decrease of the reduction may be made with respect to the 1998 taxation year.

"(3) In this section,

"'municipality' means a municipality, including a county, a regional or district municipality or the county of Oxford, the council of which is required under section 363 of the Municipal Act to determine tax ratios."

If I can provide some explanation: This provision permits the minister to prescribe a percentage reduction to the assessed value of property in the farm lands awaiting development subclasses. The municipalities may, by bylaw, phase out the above reduction by the percentage adjustment for each taxation year as prescribed by the minister.

Mr Phillips: We had quite a few delegations in expressing concern about what would happen to taxation on farm land awaiting development. Does this answer their concerns?

Mr Grimmett: There are other proposed amendments that we will be putting forward that will deal with it. This is one of the attempts to address some of the concerns raised. Perhaps I could ask Mr Wong to comment on that.

Mr Wong: This will allow further discussion with the minister pertaining to farm land awaiting development so that the discussion can flow and allow this type of usage, reducing assessment as one of the options.

Mr Grimmett: You may recall, Mr Phillips, in my opening remarks I indicated that we would continue to have discussions with the parties that wanted to discuss this issue with us. This provides an option to the minister.

Mr Phillips: Will that give him authority to make the decisions as opposed to requiring legislative approval?

Mr Grimmett: Yes.

Mr Phillips: So it's just more power for the minister. Why don't we just have a simple bill that says, "The minister may decide everything"? Wouldn't that have been a lot simpler than going through all of this? Maybe that's Mr Grimmett — he or she, he right now — this will all be in the minister's hands so the democratically elected people needn't worry much about it any longer. Is that the intent of the motion?

Mr Grimmett: I think, Mr Phillips, the intention is, with this proposed amendment and other proposed amendments, we're trying to deal with those issues affecting farm land that we feel we've reached decision on, but there are a number of matters where we want to continue to have discussions with the community affected. We're quite open to the suggestions that will come forward, but we realize that from the discussions we've had in the committee, there need to be further discussions.

Mr Phillips: This is obscene. All you're doing is saying, "Give the minister the power to make all these decisions." You may like it now — I don't know how the Conservative back bench sit still for this nonsense. It is beyond me why would you ever agree to this. I'll tell you what it is: The government doesn't have a damn idea what the hell it's doing here, so says, "All right, we can't figure this out, we'll let the minister make these decisions." It's totally obscene. I hardly know where to begin with it.

1130

Mr Pouliot: I'm going to tell you, you have 126,000 out, and again, as a group, the most educated very likely — 126,000, the great majority, 90%, with degrees, people who can count. You've placed them in the kind of dilemma that we're in. But you're the big guys, you're strong. In their case there's a bully in the school yard, Mike Harris.

Another example with your amendment, "The minister shall." Give your head a shake. Get a reality check here. Get real. Snap out of it. The minister will spell out the percentage. I thought you wanted to get out of people's faces, you wanted to give the municipalities more autonomy, more decision-making.

I heard Leach in front of AMO. They represent 95% of the populace through the Association of Municipalities of Ontario. Some gave him a standing ovation, but that was the first, because they believed; they had to believe somebody at some time. Now you're saying that Commissar Eves has all the power. He dictates to municipalities. Then you go on to say, "No decrease of the reduction may be made with respect to the 1998 taxation year." He sets the rate and you're stuck before at least 1999, because your bylaw has to reflect the previous year, November 1.

There's an election coming, your fiscal year starts in January, and you're saying, "Well, when everything is in place, nothing in 1998." I guess you can pass the bylaw and start acting in 1999.

But the meaning of it is, what is the minister prepared to do? We don't know that. If in doubt, you vote no. How can you support something that you don't know? Not with your track record. I wish I could. Really, the opposition has been violated so often here that although we search long and hard to find ways to accommodate what you're trying to put forward, we find ourselves unable to do that. It smacks of arrogance. That's why you bring out the worst in people.

I want to go on record to thank Mike Harris and the group, because never in the annals of Ontario has any one

person or a group of people been able to organize and mobilize as many people in such a short time. Mike Harris, we owe you a vote of thanks. You have mobilized people. You have made the best kind of organization possible simply because of your bully tactics, nothing short of that. Democracy has almost ceased to exist. What's the next step? Arrests at 3 o'clock in the morning? The right to assemble? Citizens will begin to disappear. We will no longer see them around town.

Put the brakes on. This amendment tells us nothing except it gives the minister — well, it started with Bill 26 — all the power possible, this kind of vortex, bag-of-snakes kind of trick that doesn't belong here. You're not telling us anything. What's going on, counsel? Do you know or do you just serve the mantra? To you maybe it's like you've served others, or you close your eyes as you've done so many times before.

My colleague finds this obscene. I find it repulsive in the extreme that you would have the audacity — the back bench of course will shuffle paper and pretend that they're reading. They won't be around the next time, but that's not the case; the citizens will be around. Amazing, and it gets worse.

The Chair: Further comments or questions? Shall the new section 9.1 carry? Carried.

Shall section 9 carry? Carried.

I have no proposed amendments to section 10. Shall section 10 carry? Carried.

On section 11: I have a government motion and a Liberal motion. I'd like to hear from the government first and we will not vote on that motion until I hear the Liberal motion because the Liberal motion amends the government motion, so I'll hold on the vote. We'll start with number 14 in your package, a government motion.

Mr Grimmett: I move that subsections 27.1(1) and (2) of the Assessment Act, as set out in section 11 of the bill, be struck out and the following substituted:

"Definition

"(1) In this section,

"'large commercial theatre' means, in respect of a taxation year, land or any portion of land that is used as a theatre, if,

"(a) the theatre contains 1,000 or more seats,

"(b) the theatre is used, other than by a charitable or non-profit organization, on a total of at least 183 days in the taxation year to present live performances with the intention of generating a profit, and

"(c) when the theatre is used, other than by a charitable or non-profit organization, to present live performances with the intention of generating a profit, no food or beverages may be consumed in the area in which people view the performances and any food or beverage service provided by the theatre is restricted to lobby areas.

"Large commercial theatres in Toronto

"(2) For each taxation year, the owner of a large commercial theatre that is located in the city of Toronto and that is not liable to taxation shall pay the city of Toronto the amount calculated in accordance with the following formula:

"P = (T x F) - S

"where,

"P = the amount of the payment,

"T = the taxes for municipal purposes that would be payable if the theatre were liable to taxation,

"F = the fraction that represents the proportion of the taxation year during which the theatre is used, other than by a charitable or non-profit organization, to present live performances of productions presented with the intention of generating a profit,

"S = any amount that a bylaw under subsection (2.1) permits the owner to deduct from the payment.

"Subsidy

"(2.1) The council of the city of Toronto may, by bylaw, permit an owner to deduct from a payment under subsection (2) an amount determined in accordance with the bylaw that represents all or a portion of the revenue from the use of the theatre, other than by a charitable or non-profit organization, to present live performances of productions presented with the intention of generating a profit, that is used to fund or financially support not-for-profit activities that take place on the same parcel of land or on another parcel of land in Ontario owned by the owner.

"City must pass a bylaw

"(2.2) The council of the city of Toronto shall pass a bylaw under subsection (2.1).

"When payable

"(2.3) Payments required under this section in respect of a taxation year shall be made not later than March 31 in the year following the taxation year."

I'd like to provide some explanatory comments. The proposed amendment removes three regulatory powers concerning payments in lieu of taxes by large commercial theatres which are not liable for taxation in the new city of Toronto. In its place, the amendment legislates that those large theatres not liable to taxation which are predominantly used to stage for-profit commercial live productions shall make prorated payments in lieu of taxes. Municipalities shall reduce the payments in lieu by the amount of any subsidy, as specified by bylaw, paid by the for-profit production to support other not-for-profit activities which take place on the same parcel of land or another parcel of land in Ontario owned by the large commercial theatre.

In response to concerns from the theatre industry as well as resolutions passed by Metro Toronto highlighting the unique nature of the not-for-profit theatre industry and the importance of heritage properties, the government has decided to require that a bylaw be passed by the new city of Toronto that will provide for the reduction of payments in lieu if it can be demonstrated that profitable productions are used to cross-subsidize not-for-profit activities.

Mr Phillips: Does the 183 days include what are called "dark days"? If there's a rehearsal going on, does it include that?

Mr Grimmett: I wonder if I could ask Mr Sholtack to comment on that. The dark days provision applies in this amendment as well.

1140

Mr Sholtack: To be consistent, the provisions are identical. It is contemplated that a public theatre would put on for-profit, plus they could put on not-for-profit activities, so the dark time would be apportioned between the two activities.

This is sort of a different issue than the earlier issue we talked about with exempt theatres, because these are our theatres that are used throughout the year to present performances. What is different is that some of them are not-for-profit performances and others are for-profit performances, so there would have to be an allocation of the dark time between the two to determine initially whether they are taxable or whether they are subject to pay the PILs and subsequently what proportion they have to pay.

The Chair: Further comments or questions?

I'd like to go to the Liberal motion, number 15 in your package.

Mr Phillips: Yes, it would amend the motion that was just read.

I move that the government motion striking out and replacing subsections 27.1(1) and (2) of the Assessment Act be amended by striking out the definition of "S" at the end of subsection (2), as set out in the motion, and by striking out subsection (2.1), as set out in the motion, and substituting the following:

"'S' equals any amount the owner may deduct from the payments under subsection (2.1).

"Subsidy

"(2.1) An owner may deduct from a payment under subsection (2) an amount that represents the portion of the theatre's gross revenues from performances or productions described in clause (b) of the definition of 'large commercial theatre' in subsection (1) that is used to fund or financially support other performances or not-for-profit activities that are undertaken by the owner."

By way of explanation, this puts in the legislation the entitlement of the subsidy rather than the operators of the main three theatres, the Hummingbird theatre, Roy Thomson Hall and Massey Hall, which are sort of one legal entity, I gather, and the North York Centre. It puts into legislation the definition of the subsidy rather than relying on the city of Toronto council.

You may remember that there was a group in that represented the three theatres indicating that they have somehow or other got caught in the whirlwind of activity here. Two of those organizations have really pulled themselves off the mat. The Hummingbird, which was formerly the O'Keefe Centre, and Roy Thomson Hall and Massey Hall, both of whom have had financial difficulties in the past, have finally gotten both those organizations on to a relatively solid foundation now and they're suddenly faced with paying new taxes. That could destabilize those organizations that have contributed and continue to contribute a lot to Ontario.

This would, as I say, put in the legislation the definition of the subsidy and not require them to have to make their case on an annual basis. For anybody who does long-term planning, you can imagine how destabilizing it can be if each year they're wondering whether in fact they will be into paying substantial property taxes or not.

Mr Grimmett: My preference would be to have the amendment proposed in government motion 14 carry unamended. The proposed motion, number 15, would take away the discretion from the city of Toronto to tailor its bylaw to reduce those payments in lieu.

I should point out that there is a fourth theatre, I believe, affected by both discussions, and that is the Elgin Theatre. We want to make sure the city of Toronto deals with this issue, that they have the discretion to deal with it and that when they do, they deal with it in a way that's fair to all of the theatres.

Mr Phillips: Just by way of comment, I was curious with some of the comments from the cultural communities patting the government on the back for doing what they've been doing. In reality, what the Harris government has done is absolutely slash financial support for the cultural community. We heard one organization that had I think \$2.5 million slashed. Then they've turned around and said, "But we will help you by cutting off, by demanding, forcing municipalities to cut your property taxes." That's at the same time as the government has dumped social housing, social assistance, child care, ambulance service, health all on property taxes.

The government had no hesitation in doing that. There's no flexibility there. It was: "You must do it. You have no choice but to do it. We are ordering you to cut your property tax to small theatres." What we're trying to do with this motion is to level the playing field. If the government is going to do that, you can't suck and blow on this. You can't say, "We are going to order municipalities to cut property taxes to those theatres, but to those theatres we're going to leave the flexibility in the municipality." You're caught in your inconsistencies.

It must be difficult to argue, as you have: "We want to leave some flexibility for the municipalities." You can't, as I say, suck and blow. You've slashed support for them and now you are adding property taxes to these — I thought it was three, now I gather it's four — theatre groups. You run the risk of destabilizing those organizations because currently they are tax-exempt.

The Chair: Further comments or questions? We are voting first on the Liberal motion, number 15.

Mr Phillips: Recorded vote.

Ayes

Phillips, Pouliot.

Nays

Barrett, Grimmett, Rollins, Wettlaufer.

The Chair: We will now vote on government motion number 14. Shall the amendment carry? Carried.

Shall section 11, as amended, carry? Carried.

I have no proposed amendments to sections 12 through 15. Shall sections 12 through 15 carry? Carried.

On section 16: I have a government motion, number 16 in your package.

Mr Grimmett: I move that subsection 33(5) of the Assessment Act, as set out in section 16 of the bill, be amended by striking out "and preventing the land from ceasing to be such land was in the control of the owner" in the second, third and fourth lines.

By way of explanation, this amendment ensures that when land is no longer under conservation or managed forest, its tax preference ends regardless of whether this was under the owner's control or not.

The Chair: Any comments or questions? Shall the amendment carry? Carried.

Shall section 16, as amended, carry? Carried.

I have no proposed amendments to section 17. Shall section 17 carry? Carried.

On section 18: I have a government motion, number 17 in your package.

1150

Mr Grimmett: I move that subsection 35(2) of the Assessment Act, as set out in section 18 of the bill, be amended by adding, after "pay" in the second last line, "or reimburse the landlord for."

By way of explanation, the amendment would clarify that a landlord must give a copy of a notice of correction to tenants who pay or reimburse the landlord for all or part of the taxes on the land.

The Chair: Comments or questions? Shall the amendment carry? Carried.

Shall section 18, as amended, carry? Carried.

Section 19: I have a Liberal motion, number 18 in your package.

Mr Phillips: I move that section 19 of the bill be amended by adding the following subsection as a subsection of section 39.1 of the Assessment Act:

"Request by tenant

"(1.1) A tenant of an assessed person who, under the tenant's lease, is required to pay all or part of the taxes on the land may request the assessment commissioner to reconsider the tenant's portion of the assessed person's assessment, including the classification of the land."

By way of explanation, Mr Chair, you may remember that we had I think several groups — yes, we did have several groups — in to comment on this. This area will be one of the areas in my judgement where there is going to be a lot of public response and we heard from a group that represented a cross-section of tenants in shopping malls — I think they were mainly shopping malls — small tenants, large tenants, who expressed grave concerns that their property taxes are going to be fundamentally changed. Some of them gave us illustrations I think of how much property taxes represented of their total lease cost or total accommodation cost. In some cases they were 60%, 70%. So that's a huge part of their business expense.

As the bill is currently drafted — currently they do get a good deal of information. I think they said they regard the assessment department as an objective third party that helps to resolve disputes between themselves and their landlords. They expressed real concern that unless the bill requires the assessment to provide them with some information and some way of being able to appeal it, they're going to be unilaterally facing some substantial changes in their business operating costs with no opportunity for dialogue and discussion. I think we're talking about literally tens of thousands of businesses that will be, once this bill is passed, dramatically impacted. The information that I took from their presentation was that the balance of power will shift dramatically to the landlord in their debates.

It's particularly important because, as I say, this is their future. This is a huge part of their operating costs. They are to a very large extent locked into their current location, probably many of them locked into longer-term leases. This is going to change their operating costs dramatically, and their ability to understand the basis on which it was arrived at and to have some influence on whether in fact that was correct will be severely limited by this bill. As I say, it shifts the power dramatically to the landlords and away from the business operators.

That's the intent of this motion: to provide more information to the tenants, to give them an opportunity for some say in it. I hope the government can support this because if we don't, come next July, when all of this finally becomes reality, you're going to face not only some very angry people, but some angry people who feel they've been disadvantaged by the bill.

Mr Pouliot: Most commonsensical. We'll be around next July unless the government decides to go to the people in order to avoid what's coming down the pike. Both opposition parties all along have been saying: "Look, how will this be reflected? What about in the real world? Where are your impact studies?" The answer is almost always the same, "Trust us. Life goes on and we're committed to making it simpler," but no, it's becoming more complex by the day. The degree of uncertainty is real.

I know you have a bias towards certain groups because of your philosophy and you believe that the least interference from any government will benefit the marketplace. You wish to create, and you're sincere, a climate whereby the free enterprise system will prosper. You see them as being catalytic in creating jobs and prosperity, yet when it comes to some of the rules and the letters that you send to yourselves, the legislation, sometimes it paints a different picture.

We have had group after group come here as presenters saying, "I thought you were to do this." The developers were a prime example. In fact we have had no less than, I don't know, maybe 10 people, municipalities and developers' associations, builders, who are saying: "Seize the relationship with one municipality. Divorce yourself from Mayor McCallion because everyone else wishes to have something else." They told you directly: "You are supposed to help us. We voted for you. We go to your fundraisers. Some of us have bought suits for your Premier, and maybe golf memberships, and so on." They don't seem adverse to doing it again and again and again because it serves everybody's purpose in those circles, but you are penalizing people.

The small commercial, the small industrial gets it in the neck here. When push comes to shove and difficult choices have to made by municipalities, they will not turn to the residential if an opportunity is given to raise money from the commercial and the industrial. Those people are left without protection.

A cynic would say: "Why don't you help the government pass everything? First, it's going to happen anyway. Then don't caution the government, but don't wish them well. Have it pass and when it hits the street, it becomes such a mess." Oh no. We're not inclined that way. We're saying, "Take a little time. Do it this way. Maybe it's better. Consult more with people," but it seems that they've embarked on such an agenda, that they've gone so far, that those messiahs — I mean, they have the determination of some groups too often heard and read about. They see no danger. God is great and they just push forward with the agenda. People are getting it from all sides. This is one example.

When it hits — I haven't had an answer from anyone — how are you going to handle 600,000 appeals, because that's what you're going to get? People in the meantime will be asked to pay taxes. This is winner-takes-all. The rich get richer. There is no capping. The anchor in the mall, the proprietor, the owner, in this case the landlord, takes it all. The small players are at the mercy of your government and they are at the mercy of the landlord. They have no friends.

Those are the people, politically speaking, as crass as it may be, that put their faith in you. They thought they were voting for a good Conservative Party, but you brought along on your coattails, many straight out of the Reform-a-Tory. Now they're stuck with those young ideologues, those little — the Globe and Mail had the right description over the weekend. I don't remember the exact word. In the final analysis, they are of little consequence. You will eat your young. You will discard them and life will go on, but must you leave such a legacy? It's going to take some time to get rid of you people. You had better get a majority because if you don't get a majority, people like Mr Phillips and myself are not opposed to being compatible. We've done it before and it worked relatively fine.

Anyway, this is yet another example of what you are doing to yourselves. Stop being so masochistic, unless you have ulterior motives. Throw away the whip. There are other ways to express yourselves. This is a contortion. This is a concoction which is ill fated. You're hurting yourself. Why do you like it? Life can be so wonderful. Join in. Why must you be so negative and just concoct these things? What do you do, dim the lights and have a bottle of cheap whisky and scare one another? Halloween is over. Get on with it. I'm surprised that time after time you never learn the lesson.

Mr Chair, we should have a recorded vote on every one of your amendments so we can tell you in the future, "We told you so, and look at what's happening now." I'm really disappointed in what's in front of us.

The Chair: Further comments or questions?

Mr E.J. Douglas Rollins: It is getting close to the lunch-hour and I would like to propose a recess. I am asking for unanimous consent.

The Chair: Agreed? Agreed.

The committee recessed from 1202 to 1307.

The Chair: When we recessed, we were hearing comments and questions on the Liberal motion, which is number 18 in your package. I would like to ask for further comments or questions.

Mr Grimmett: I'll say at the outset that I can't support the Liberal motion, mostly because the reference in the motion to "the tenant's portion of the assessed person's assessment" is problematic. The reform that we're trying to bring about would to some extent hopefully simplify the assessor's job. It's not contemplated that the assessors would continue to in any detailed way set aside each tenant's portion in any type of valuation.

We continue to discuss with the various groups that raised this issue, and it certainly is an issue that needs to be addressed. We have said that we're going to continue to meet with the commercial tenants and owners of commercial and industrial multi-use properties. We want to address their concerns regarding access to assessment information and access to the reconsideration process. The government is currently in the process of considering amendments to existing legislation in the upcoming session of the Legislature to address those concerns.

When we eliminated the business occupancy tax — the government is moving out of the business of apportioning tax on individual tenants. However, we appreciate the need for access to assessment information. We've indicated in our discussions with tenants that information such as gross square footage, average fair market rents and capitalization rates should be made available, and the government will be considering amendments to permit access to this and other information that is not confidential.

Mr Pouliot: I for one take no pleasure in watching in front of my very eyes a government that self-destructs. I have had for some time some questions, but now I'm certain that in large part you don't know where you're going, you don't know what you're doing. Every turn of phrase indicates that you either will do so by regulation or we recognize that there are further amendments.

Given your doctrinaire attitude, it is so unlike you, it is so unbecoming. It's like humour. In your case, it does not become you in the least. It's a last resort to correct mistakes. Hordes of legal experts, counsel, the best minds from the civil service will not suffice to save you. That's the crux of the matter. You are competent in your individual field, but given the speed at which you are going — you have no timetable. We would prefer to be here and to say, "Well, the government is doing what it said it would," but not to the point of being obstinate, that has a timetable.

There would have been nothing wrong in your downloading exercise — I mean, what's the rush here? You wanted to correct what you felt was not appropriate nowadays, but in doing that you're correcting things that are not — if it's not broken, don't fix it. Some of the things are

better left alone because they disturb our daily habitat. It's not a big crisis; let it be. Take the molecules or the atoms out of the convention and address them. What you're doing is you're pushing so far, so much, that you confront yourselves. Now you have to live with it. That's the creation. Thomas Walkom was at it again today, by way of the Toronto Star, saying, "Harris' chickens are coming home to roost."

This is your own making. This is your own design. You are the architect and the engineer of your own demise by attempting to please some at the expense of others. I don't think you mean bad; no, you mean good. It's the same with every bill. You come up with 40 or 50 amendments, and what you can't recuperate, you set up a secondary arbitrage, repêchage, that you pick up through regulation. I'm sorry. You shouldn't have to go through, "Trust us with regulation." Some bills are three pages and the regulation is 18 pages. It should be the other way around. They have to complement one another, but when the intent and the spirit is found the regulation as opposed to the bill, you've missed the boat.

I know I'm sounding repetitious perhaps, but this is error. This is, "Patch here and do this — oops, I forgot this." Not very professional, not very Tory, not very businesslike. If you ran your individual businesses this way, especially those of you who have aspirations but yet are still quite small, you could not evaluate like this. Your line of credit would be cancelled. You have no business plan. You're ruling by the seat of your pants: not good enough for me as a socialist. As a capitalist, you risk being capitalists without capital. A capitalist without capital on your house is a curse of the highest order; that is, if it's the demise of yourselves, of your beliefs. My God, capitalists without capital: What a dreadful thought. I want to wish you well, but I'm not satisfied with your business plan. You have none.

The Chair: Further comments and questions?

Mr Phillips: You can imagine the frustration if you were on our side. Everything's going to be handled somewhere down the road, somewhere else. Some regulation will tell us what isn't being answered. In this case it's some legislation that isn't even introduced. The House comes back for four weeks and the future of all these often small businesses, not necessarily all small business, hinging on these kind of issues.

The parliamentary assistant just said: "We'll talk to them. We'll try and find some solution. We'll try and put it in legislation. We'll try and get it passed before the end of December." As my colleague said, if this were a business and you were going to the bank for a line of credit, they'd laugh you out of the bank. You wouldn't last five minutes in front of a bank manager with this. They'd say, "You'd better go and get some professional help here," because this is an embarrassment. I don't know how many pages the bill is — it's not that long — but there are 35 amendments here. Not only that, but an awful lot of the details are handled in what's called regulation.

I just sort of shake my head at the answers we get. If I were out in the business community I'd be saying: "What in the world are they doing to us? I thought they understood that we can't operate on this level of uncertainty."

I understand that once again the government is going to vote against our motion, but your faces must be red when you do it, because I guarantee you that I'll remind the business community of what happened here.

Mr Pouliot: I hope you realize, by way of a point of order, if I may, that we're sincerely here, Mr Phillips and I, to help all we can.

The Chair: I appreciate your point of order. Thank you.

Any further comments or questions on the amendment? Shall the amendment carry?

Mr Phillips: Recorded vote.

Ayes

Phillips, Pouliot.

Nays

Barrett, Grimmett, Rollins, Wettlaufer.

The Chair: The motion is defeated.

Shall section 19 carry? Carried.

Section 20: The first motion I have is number 19 in your package. It's a Liberal motion.

Mr Phillips: I move that section 20 of the bill be amended by adding the following subsection as a subsection of section 40 of the Assessment Act:

"Last day for complaining for 1998 assessment

"(2.3) Despite subsection (2.1), the last day for complaining with respect to the 1998 taxation year is, for a property, the day that is eight weeks after the day the final notice of demand for 1998 taxes for the property is given."

By way of explanation, this would permit property owners eight weeks to appeal their assessment after they receive their final property tax bill for 1998. It will only be when people get their final tax bill that they'll have any idea at all what's happened to them. I think hardly anyone will understand the impact when they get their assessment notice. It will just be a number on there and you won't know what that really means. When you get your tax bill you'll know, because that's when it's translated.

As I mentioned earlier today, the municipal financial officials indicated to us when we were in public hearings that they do not expect the final tax notices going out — perhaps at the earliest in June and maybe as late as July. This gives eight weeks after people get their final tax notice to appeal.

1320

The Chair: Comments or questions?

Mr Pouliot: Through you, with respect, Mr Chairman, to Mr Phillips perhaps, first, how many weeks at present does someone have to appeal the assessment after the assessment has been received by the party?

Mr Grimmett: It's 21 days currently.

Mr Pouliot: Mr Phillips, you would like the 21 days amended to read eight weeks after receiving the assessment notice?

Mr Phillips: No, the final tax bill.

Mr Rollins: Eight weeks after the final tax bill.

Mr Pouliot: Thank you, Mr Rollins. Exactly the point I was making: assessment, the value of one property vis-à-vis another in a vicinity, a certain area. The amendment reads that you must receive your tax notice, which one could argue is foreign, independent, has no relation with the assessment. The mulitiplier, the formula, leads you to that, so I guess you could integrate it this way.

Is it to say — maybe I am imputing motive here — that once you get your tax bill, then you will seek recourse under appeal of assessment because you don't like your tax bill? The two are separate here. If you say increase the 21 days, but if you integrate by saying wait till you get your tax bill and then you can appeal your assessment — I don't see the normal flow here. I find this rather extraordinary because I see them very separate. If you could say 21 days after you get your appeal, doesn't that suffice? That period should be increased too. We're still talking in the same box. But if you're saying the tax bill —

Mr Wettlaufer: That's what he's saying.

Mr Pouliot: I know. My question is to Mr Phillips.

The Chair: Do you want to comment, Mr Phillips?

Mr Phillips: Sure. It will only be when people get their tax bill that they will have any idea at all of what the impact of this assessment is. The fact that the government hasn't given us any impact studies, the fact that none of the municipalities have any idea of how this is all going to net out: I will guarantee you that the anger when people get their tax bill and then find they can't even appeal it will be interesting.

Mr Wettlaufer: I believe it was the Liberal government that brought in market value assessment a number of years ago, and I don't see that they considered it of import that they would change the legislation at that time to permit people to appeal the assessment after they received the tax bill. I personally received my assessment notice under MVA back in 1989 and I only had 21 days to appeal after the assessment was received, not the tax bill. I don't see why it should be any different now than it was then.

Mr Grimmett: I won't be supporting the Liberal motion. When the Ontario fair assessment system comes into effect in 1998, the taxpayer's time for appeal after the return of the assessment roll will be extended from 21 days to 60 days for 1998 and 90 days in subsequent years, so we are addressing the issue of providing more time for people to appeal their assessment.

Mr Phillips: So it is eight weeks right now.

The Chair: Further comments or questions? Shall the amendment carry?

Mr Phillips: Recorded vote, please.

Ayes

Phillips, Pouliot.

Nays

Barrett, Grimmett, Rollins, Wettlaufer.

The Chair: The amendment is defeated. I have another proposed amendment from the government, number 20 in your package.

Mr Grimmett: I move that section 20 of the bill be amended by adding the following subsection:

"(2) Section 40 of the act is amended by adding the following subsection:

"Correction of errors

"(18) If it appears that there are palpable errors in the assessment roll,

"(a) if no alteration of assessed values or classification of land is involved, the board may correct the roll; and

"(b) if alteration of assessed values or classification of land is involved, the board may extend the time for making complaints and direct the assessor to be the complainant."

Just in background, this new subsection is added to allow for correction of palpable or obvious errors in the assessment roll. This technical amendment would allow the Assessment Review Board to change any obvious errors.

Mr Pouliot: Please bear with my reaction if I seem exuberant. I'm really not, but I have the spontaneous choice of whether to cry or to laugh, and I thought maybe the second instance would be preferable. Now you recognize the error of your ways. You confess. You say: "Well, you know, if we make any mistakes, if we screw up, we have an amendment." You bring forth an amendment in anticipation of the many screwups and you say: "With the stroke of a pen, the magician can correct it. There is nothing that has happened, but just in case it does, we want you to have the go-ahead." There is little recourse. "You can do what you wish, Commissar." This is what you are saying here. You say, "We're in charge of the revolution here, the war, the big picture, but Commandante, if there's a sentry at its post, a member of the brigade, with the stroke of a pen, a gesture of the hand, a twist of the wrist, get rid of them." This is really something.

A good producer would have a — this is slapstick. This is very cheap. This is the precursor to the final act at Yuk Yuk's as it's about to leave town and to close shop.

Laughter.

Mr Pouliot: Even children will not laugh at this. This is bad, bad, bad stuff. I mean, Christopher Columbus: "if no alteration of assessed values...the board may correct the roll." So you got the commandante in your structure here, the politburo, and then you've got the commissars: "You are in charge of this, this, this." Then you have the spear carriers, their brigade. They are the first ones off the cliff. They're dispensable, but the commissars will actually be in place, and they can correct the mistakes.

Well, if there's a mistake, what about the right of people to appeal? That's not in jeopardy here, but it might be, because my right to appeal was based on a mistake or

mistakes, but now the commissar will be able to check. I can hear the click of the heels from here to eternity, province-wide. My God, this is unbelievable. Get the brown shirts back from the dry cleaners. Unbelievable.

Mr Wettlaufer: On a point of order, Mr Chair: I think the use of "brown shirts" is unparliamentary. Even considering that English is not M. Pouliot's native language, native tongue, I believe he could select other words.

The Chair: So you had no objection to "spear carrier"?

Mr Wettlaufer: I have no objection to "spear carrier."

1330

The Chair: Would you care to withdraw, Mr Pouliot?

Mr Pouliot: You're right. For the respect I have for my friends and their opinions, I will substitute "brown shirt" with "camisole." No, I will withdraw.

The Chair: Thank you. Further comments and questions?

Mr Grimmett: If I could try to clarify, there actually is real benefit here to the public and I'd like Mr Sholtack to perhaps provide a little bit of background on this amendment.

Mr Sholtack: The intent of this provision is to allow corrections that are obvious, not to necessitate appeals, because there are many slight errors that can be easily fixed that the assessment department points out. There has been a variant of this in the Assessment Act for many years. When you have so much information, there is invariably a slight error that can be easily fixed. This gives the Assessment Review Board the power to do that without necessitating an appeal and the payment of the fee and all the other process that you go through. It's a power that is very useful to correct these minor errors.

This same provision was enacted under Bill 106 but it was based on Bill 61 receiving royal assent before December 1. That may not happen, so this provision will only be proclaimed should Bill 61 be passed after Bill 106 comes into effect and supersede an earlier provision that was written into Bill 61. It's a technical timing problem that we're fixing here, but the intent is the same.

The Chair: Further comments or questions? Okay, we're voting on the government motion number 20 in your package. Shall the motion carry? Carried.

Shall section 20, as amended, carry? Carried.

I have no proposed amendments for sections 21 to 28. Shall sections 21 to 28 carry? Carried.

I have a proposed amendment from the government, number 21 in your package, on section 29.

Mr Grimmett: I move that subsection 29(2) of the bill be struck out and the following substituted:

"(2) Paragraph 17 of section 236 of the act, as amended by the Statutes of Ontario, 1993, chapter 27, schedule and 1996, chapter 1, schedule M, is amended by striking out the portion preceding clause (b) and substituting the following:

"17. For licensing, regulating and governing transient traders.

"For the purpose of this paragraph,

"(a) 'transient trader' means a person who offers goods, wares or merchandise for sale in any manner in the municipality,

"i. other than on a permanent basis, or

"ii. on a permanent basis if the total time the person has operated the business on a permanent basis and the time the person continuously resided in the municipality immediately before beginning to operate the business on a permanent basis is less than three months.

"(3) Clause (f) of paragraph 17 of section 236 of the act is repealed and the following substituted:

"(f) The licence fee shall be applied on account of taxes payable on the land used for the purposes of or in connection with the business if the land is owned by the person carrying on the business during the year in which the licence was issued and five years thereafter."

Background note: The amendment replaces subsection 29(2) with new subsections 29(2) and (3), which give municipal authority to license and charge fees to transient traders. The former authority was connected to the business occupancy tax, which was eliminated in Bill 106.

The Chair: Comments or questions? Shall the government motion carry? Carried.

Shall section 29, as amended, carry? Carried.

I have no proposed amendments to section 30. Shall section 30 carry? Carried.

On section 31, I have a proposed amendment from the government. It's number 22 in your package.

Mr Grimmett: I move that clause (e) of the definition of "payment in lieu of taxes" in section 361.1 of the Municipal Act, as set out in section 31 of the bill, be struck out and the following substituted:

"(e) section 52 of the Power Corporation Act."

As background, this consequential change ensures that the definition of payments in lieu is consistent with the amendment to the Power Corporation Act set out in section 65.

The Chair: Comments or questions? Shall the government motion carry? Carried.

Shall section 31, as amended, carry? Carried.

I have no proposed amendments to sections 32 and 33. Shall sections 32 and 33 carry? Carried.

Section 34: I have a proposed government amendment, number 23 in your package.

Mr Grimmett: I move that subsections 368.1(1) and (2) of the Municipal Act, as set out in section 34 of the bill, be struck out and the following substituted:

"Prescribed subclass tax reductions

"(1) The tax rates that would otherwise be levied for municipal purposes for the subclasses prescribed under subsection 8(1) of the Assessment Act shall be reduced in accordance with the following rules:

"1. The tax rates that would otherwise be levied for municipal purposes for the subclasses prescribed under paragraph 1 of subsection 8(1) of the Assessment Act shall be reduced by the prescribed percentages.

"2. The tax rates that would otherwise be levied for municipal purposes for the subclass prescribed under subparagraph (i) of paragraph 2 of subsection 8(1) of the

Assessment Act shall be reduced by 30% or by the percentage, if any, under subsection (2.2).

"3. The tax rates that would otherwise be levied for municipal purposes for the subclass prescribed under subparagraph (ii) of paragraph 2 of subsection 8(1) of the Assessment Act shall be reduced by 35% or by the percentage, if any, under subsection (2.2).

"4. The tax rates that would otherwise be levied for municipal purposes for the subclass prescribed under subparagraph (i) of paragraph 3 of subsection 8(1) of the Assessment Act shall be reduced by 30% or by the percentage, if any, under subsection (2.2).

"5. The tax rates that would otherwise be levied for municipal purposes for the subclass prescribed under subparagraph (ii) of paragraph 3 of subsection 8(1) of the Assessment Act shall be reduced by 35% or by the percentage, if any, under subsection (2.2).

"Same

"(2) The Minister of Finance may make regulations,

"(a) prescribing percentages for the purposes of paragraph 1 of subsection (1);

"(b) requiring percentage reductions of the tax rates for municipal purposes for any subclasses prescribed under subsection 8(2) of the Assessment Act.

"Choice of percentage within range

"(2.1) If the regulations made under subsection (2) require tax rates to be reduced by a percentage within a range described in the regulations,

"(a) the percentage shall be specified, by by-law, by the council of the local municipality or, if the local municipality is a lower-tier municipality, by the council of the upper-tier municipality; and

"(b) if no percentage is specified under clause (a), the percentage shall be the highest percentage in the range.

"Municipal option for certain paragraphs

"(2.2) The council of a municipality, other than a lower-tier municipality, may pass a by-law providing for a single percentage that is not less than 30% and not more than 35% to apply instead of the percentages set out in paragraphs 2 to 5 of subsection (1)."

By way of explanation, the amendment removes regulatory power of reducing tax rates for vacant land, vacant units and excess land subclasses. It places them in the legislation. The tax rate for the vacant land and the vacant units and excess land subclasses in the commercial property class shall be 70% of the rate otherwise payable, and in the industrial property class shall be 65% of the rate otherwise payable. Municipalities are given the option to choose either a single percentage between 65% and 70% for both the commercial and industrial classes or the above percentages.

For the subclass for farm land awaiting development, the tax rate reductions will be set in regulation. If no percentage is specified, the tax rate shall be the lowest percentage of the rate otherwise payable.

One further item in this amendment pertains to large commercial theatres. If a subclass is prescribed for eligible theatres in the city of Toronto, tax rates may be set by regulation.

The Chair: Comments or questions?

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Mr Pouliot: Not by way of prophecy, but this nightmarish scenario whereby the law profession is occupying the largest floor space in each and every mall in the province of Ontario — this is a minefield. And yet one more time we see the minister, the main mullah, the guru, we see the shadow of his hands controlling the puppets. This is convoluted. And yet if it doesn't work, the minister has a right to guillotine, to behead, to execute at will — will show no mercy. When everything else fails, the minister has the almighty power to decree, to, in the context of legislation, impose his will, to rule by force. Another affront at democracy.

Members of the opposition, when they face this committee, should come with the proper attire. They should come here straitjacketed and handcuffed, because this is sad, sad, sad as you see this concoction, this sad mélange, this poison develop. It penetrates every aspect, through legislation, of our daily lives. You are successful. You have poisoned the well totally. It's page after page of this kind of determinant, and your philosophy represents what is worst in terms of a democracy. There isn't a life that you don't touch either directly or indirectly.

When this hits the street next June or July, Mr Phillips and I and our colleagues — and the populace of Ontario much more importantly — will be around. It will be, to say the least, challenging and interesting to see the skirmish. When the light is on, you will do the proverbial dash to the nearest hole, the nearest exit. When the lights come on, when you stop blocking the sun from penetrating, you shall be exposed for what you have put on paper and legislated.

I'm sorry. I'm going back home this afternoon and I am going to keep reading the classics. You are a depressing lot in the context of legislation. It gets worse. It exceeds, it surpasses, one's imagination. This has "bad news" written all over it.

Still time? I'll be brief. Still time. It comes from you. Mr Phillips and I are in your office with our IDs. We're quite willing for the benefit of Ontarians to come out of your office with your IDs. You could be heroes. You could wear the badge and you can be proud once again. Either that or you come up with this kind of cheap, confusing wording that if A doesn't get you, B will, and you cannot escape.

This is sad, sad, and sad again, and every time you get confused, you draft some more legislation that is even more confusing.

The Chair: Further comments and questions? We are voting on government motion number 23. Shall the motion carry? Carried.

Shall section 34, as amended, carry? Carried.

I have no proposed amendments to section 35. Shall section 35 carry? Carried.

Section 36: I have four proposed amendments. We'll begin with the one which is number 24 in your package. It's a government motion.

Mr Grimmett: I move clause 368.3(4)(a) of the Municipal Act, as set out in section 36 of the bill, be struck out and the following substituted:

"(a) prescribing, for each geographic area described in subsection (5.1), the rate of tax to be imposed by a local municipality on land described in subsection (1)."

By way of background, the power to prescribe tax rates for railway and hydro rights of way is amended to provide that a tax rate shall be prescribed for each specified geographic area in the province.

The Chair: Further comments or questions?

Mr Phillips: Can you give us a brief explanation of this again?

Mr Grimmett: Mr Wong, could you elaborate on that?

Mr Wong: This amendment will allow the prescription of tax rates for those areas that will be mentioned in further amendments. We'll have nine geographic areas, and for those nine geographic areas there will be tax rates and the minister will prescribe those rates.

Interjection: Do we have the prescribed geographic areas?

Mr Wong: No, the geographic areas will be amended in the following amendments.

Mr Phillips: This is the one where Harris and Eves sort of sign a piece of paper saying that we're going to order the railroads and the utilities to pay X amount per acre.

Mr Wong: It will tax per acre, yes.

Mr Phillips: Can we just get a brief explanation, Parliamentary Assistant — we've heard a lot about market value and how this simplifies things and the bill is all about market value — of why, rather than market value, we've chosen acreage as the determinant here?

Mr Grimmett: There was concern expressed at the outset when we dealt with Bill 106 from the major railway companies and the other entities that would be affected by a change in the assessment situation. There was a concern that the existing patchwork of assessment treatments they receive throughout the province could be exacerbated. They impressed upon the finance ministry that they would like some certainty, as they proceed, to deal with their right-of-way properties.

It was decided by the ministry that we would prescribe a series of rates on an acreage basis throughout the province and break down the right-of-way properties into nine geographic areas. The railway companies were here and they talked about that problem. They indicated that they felt this was a fairer way to deal with them in terms of setting out a prescribed rate on those areas where their rights of way are.

There was some concern that the rights of way, which are quite substantial in some northern communities, could be used by municipalities to perhaps distort the rates among different classes.

Mr Phillips: That doesn't make any sense to me; it's a set of words but — the railroads ultimately will sell off some rights of way. I don't think they'll sell an acre of land in Pefferlaw at the same rate they're going to sell an acre of land in downtown Toronto. They're going to pay taxes at exactly the same rate. The government said this is bringing consistency, fairness and all those things to the tax system. I heard what you said and I'll read it again in Hansard, but it didn't make any sense to me. It wasn't an answer. I know that's what the railroads want but we're here, I think, to speak for the public as well.

Can you just maybe in simple language tell me where the public interest is served on assessing land on the basis not of market value but of numbers of acres?

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Mr Grimmett: There is still a market value component in that acreage. There is still a market value component in the acreages in each of the geographic areas.

Mr Phillips: Tell me more. How is that?

Mr Grimmett: I'm not the expert in that field. I'm not going to get into some kind of expert explanation for it.

Mr Phillips: Just tell me where that's market value in it.

Mr Grimmett: In setting out the rates there is a concept of market value for the lands occupied by rights of way in each of the geographic areas.

Mr Phillips: I don't see any of that in the bill. Tell me where it is.

Mr Grimmett: Perhaps I can have Mr Sholtack provide a little more detail.

Mr Sholtack: The problem this is addressing is that under the current act rights of way are taxed based on the value of adjoining properties. As you pointed out, a right of way in Toronto would be taxed much higher than a right of way in Pefferlaw or anywhere else in Ontario. In order to equalize that, because as long as the railway company is using the right of way for its railway purposes, it should be taxed the same whether it's located in Toronto or in northern Ontario, that's the purpose of these amendments: to stabilize the rate within the geographic area so that the tax is the same. Because the value isn't there as long as the railway company is using the right of way to run a railway and, as such, it's an integrated process, the land is worth the same, basically, wherever it is because it's being used for railway purposes. To compare it to adjoining property really distorts the value.

Mr Phillips: So let's just follow this. You're saying, then, that the logic is that if I am using a piece of property in downtown Toronto, it should be assessed at the same rate as if I am using a piece of property in Pefferlaw.

Mr Sholtack: The geographic areas, we'll deal with that in a later amendment.

Mr Phillips: I know you're dealing with railroads, but you said the logic is that regardless of where the rights of way are, they should be taxed at the same rate, if that's the logic. I'm just trying to figure out the logic, because it's not logical to me. You're now saying that regardless of where your business is or your home is, you should be taxed at the same rate. If you have a house on an acre of property in downtown Toronto, it should be taxed the same as a house in an acre of land in Manitouwadge.

Mr Sholtack: Railways are different because they need the track to operate, just like trucks need roads to

operate. As long as they're using the right of way to run their railway, the land is used for railways purposes.

Mr Phillips: A steel company needs land. I understand this makes the railroads happy. I'm just trying to figure out where there is any consistency in public policy here. If you just want to say, "Well, we're trying to keep the railroads happy — "

Mr Sholtack: No. It provides consistent treatment for railway rights of way within the geographic areas. It's limited use. As I said, the rights of way for railways can only be used to run trains on and for power utilities to string wires on. It can't be used to develop for a steel mill, for an apartment complex, for a commercial shopping centre; it can only be used to run trains on. As long as it's being used to run trains on, that's its value, that's the way it's going to be assessed within the geographic areas that are being provided in the act. It's not fair to compare them to comparable properties the way the act provides now, to value those rights of way based on adjoining lands.

Mr Pouliot: Following on what my distinguished colleague has said, you're right, Mr Phillips, by your reaction. This may be futile.

I need your help. I must work very hard at some of those things, so please be a little patient. Actual value assessment does not apply to rights of way, ie, railways, because of the description of usage of land. Right?

Mr Sholtack: Of the use to which the land is put.

Mr Pouliot: That's right. What you have done is you have established eight or nine, is it, different regions?

Mr Sholtack: Nine.

Mr Pouliot: Each region will be assessed at a different rate and the base of the formula will be so much assessment per acreage.

Mr Sholtack: The tax rate, yes.

Mr Pouliot: Completely detached from the actual value, because your approach is that since they have no actual value, they are only used for a purpose, we get them out of the convention. They are not to be like actual value. Right?

Mr Sholtack: They're to be treated as rights of way, yes.

Mr Pouliot: Very good, thank you. How do you reconcile some farm land being assessed at industrial value while it is still farm land for all intents and purposes? If somebody goes and applies for a permit or for rezoning and before that shows the least intent of changing what is being done, but yet because of rezoning a farm is assessed at industrial value, how do you see the consistency of that with the railroad?

Mr Sholtack: There is nothing in this provision, of course.

Mr Pouliot: Of course not.

Mr Sholtack: We did discuss farm land awaiting development in a previous motion.

Mr Pouliot: Okay, but Mr Phillips has said that because some of the acreage is presently abandoned — or not abandoned but on the way to being abandoned or changing — they've said that if they fail to find a shortline operator, or in their case they'll just go commercial, they're already advertising. Yet we know that the minute the land flips, an acre of land in Thunder Bay will be more expensive than an acre of rights-of-way land in Armstrong — market — we all know that, I think. Right? But because they are in the same region, they are assessed the same way.

You have to be consistent in your approach. The railways are saying that they're going to sell this in downtown Toronto and they're going to complete either a convention centre or add a sports facility, but presently that land is a right of way.

Mr Sholtack: I don't believe it is.

Mr Pouliot: I don't have an example, but if I think there is some example someplace — we know what's happening out there to some extent — that land will still be treated unlike the farm land that might or might not be developed some day, but that land will still be treated on preferential treatment per acre.

So much for actual value. Another brief subject I want to bring up is the railways — most if not all majors have no hesitation when you peruse their books; some due diligence, nothing wrong — using as assets and in terms used as collateral and in terms used to get a few basis points off the papers they float, the floats they issue. They use the land for an actual value. It's good collateral, it is sound and it is a way of doing business.

This is an asset on the books and it is not recognized by your definition. By the government's definition, they wash their hands of this. Again, it lacks consistency, because the railroads use that as true assets at the full market value. I'm just saying that in terms of the consistency.

1400

Having said this, I must admit I don't know what the answer is, whether they should be fully assessed when they are truly a right of way. I'm appreciative that no one has tried to defend this. The parliamentary assistant was tentative at best, not always the best position. You have so much on your plate. I can appreciate that. Let it be, we understand, but this is to be watched rather carefully. It doesn't jibe. It doesn't make the grade.

The Chair: Further comments or questions? We're voting on government motion 24. Shall the motion carry? Carried.

We have a government amendment proposed, number 25 in your packet.

Mr Grimmett: I move that paragraph 2 of subsection 368.3(5) of the Municipal Act, as set out in section 36 of the bill, be amended by striking out "and may be restricted to a geographic area" in the second and third lines.

The background on this is that it's a consequential amendment that strikes out a reference to geographic areas, which is necessary because the previous amendment provides that tax rates shall be set for each geographic area.

The Chair: Comments or questions? Shall the amendment carry? Carried.

Government motion number 26.

Mr Grimmett: I move that section 368.3 of the Municipal Act, as set out in section 36 of the bill, be amended by adding the following subsections —

Mr Pouliot: On a point of order, Chair: In terms of this lengthy one, with respect, would you agree to dispense and give us your rationale behind it? It's quite lengthy, it names every one of the nine regions and we've already debated that.

The Chair: You're asking for unanimous consent to dispense with reading the motion and just describing what it does. Agreed.

Mr Grimmett: This amendment adds a new subsection to section 368.3 of the Municipal Act, creating nine geographic areas in which tax rates for railway and Hydro rights will be set.

Mr Phillips: Just to help me along with the logic of this one as well, I'm trying to find the rationale for this, why the railroads would pay — I disagree with the per acreage thing, but why would they pay one tax on an acre of land in Oakville and another on an acre of land in Burlington? They're right beside each other.

Mr Grimmett: I've had the explanation given to me and it has impressed me, and I still haven't become that familiar with it, but I can pass it on. I'll ask one of the people at the table. I think Mr Tassonyi wants to provide this one.

Mr Phillips: If he didn't want to, he does now.

Mr Tassonyi: I'm not sure I want to, but the reason essentially is that, as shown in the parts that are unamended in the bill, it's the government's long-term intent to move towards a consistent, province-wide rate of taxation on rights of way over a period of time, given the regionally specific ones in any case. In some sense it also reflects the existing differences of taxation levels in those areas. It's in part to address the issue of how much tax shifting you minimize by setting out these geographic areas.

Mr Phillips: Help me along again. There is no logic. This is an interim step, is it?

Mr Tassonyi: No, the setting out of the geographic areas is not an interim step. It sets out the areas within which a consistent rate would be applied. It's just that it was chosen to set this out in statute in order to provide a firmer base for which the municipalities could then understand within what context the rate structure would apply to those rights of way.

Mr Phillips: I heard every word you said. I don't understand the logic of why, if I'm the railroad, I pay X per acre in Oakville —

Mr Tassonyi: At this point it's not so much the logic for the railway company. They would probably prefer to pay one standardized rate throughout the province.

Mr Phillips: What's the logic for the public? Just tell me the logic for the public.

Mr Tassonyi: The logic is more from the municipal finance perspective, which is that it's basically maintaining the existing tax burden, as it exists in that region, that has been paid by the railway company and it averages out over the region. Given the number of counties and so on, it's very large regions. The logic is more from the municipal-fiscal perspective as opposed to the railway company's interest, in some sense.

Mr Phillips: It embraces in legislation inequities that the municipalities have developed.

Mr Tassonyi: That's one way to put it, yes.

Mr Phillips: What other way is there?

Mr Tassonyi: I would say it makes it more consistent over time. Basically it's because of these differences that we've created the geographic regions, and it's within the regions that we'll have equity over time.

Mr Phillips: There's no logic to it. I guess you're just saying that we will put in legislation the inequities.

Mr Grimmett: I think there is some logic here.

Mr Phillips: What the hell is the logic? There is no logic.

Mr Grimmett: The logic is that we are trying to be fair to the railway companies, as we're trying to be fair to other groups and other taxpayers in the legislation. We feel that in order to maintain some stability in the amounts the owners of these rights of way pay to municipalities, we have to look at the amounts they currently pay to municipalities. We've chosen to break it down into geographic areas and then the minister will fix the rates.

Mr Pouliot: I'll never learn English.

Mr Tassonyi: Historically there was zero logic, absolutely none, because you had differing rates within a municipality itself of effective taxation. If the railway ran through Rosedale it was taxed at one rate per square foot or per acre of line, and if it moved out of Rosedale and hit Parkdale and the same CP line runs through the town, the value then falls. Essentially the point gets at trying to move towards a consistent understanding of what that rate is going to be within a vary large geographic area.

Mr Phillips: I guess you've got to do it, but don't try and snow me.

Mr Tassonyi: I'm not.

Mr Phillips: What you're saying is that there was no logic in assessing it one thing in Parkdale and another in Rosedale, so you're going to take the total amount they're paying and you're going to redistribute it on the basis of per acreage.

Mr Tassonyi: I know, and as I said to you before, we're moving towards a consistent geographic rate of taxation, and it is meant essentially to put some stability into the picture so that as we move through here and revalue properties, the railways' rates of taxation are clear to them as well.

Mr Pouliot: Mon collègue, we shouldn't be surprised. No one is blaming anyone here. It's obvious to me — with respect, it's not directed at you but to the government — this is one more example of the railways being given special and preferential treatment. There is no other way. But one need not be surprised. All one has to do is go back to its origin, the history of our great country. Railways were given huge tracts of land. It started with a dream and quickly joined a political reality and it hasn't stopped.

You say the usage you make has nothing or little to do with the actual value of the property. Those tracts of land in some cases are worth literally millions and millions of dollars by virtue of location, location and location. That is

not being considered in the mentality, in the philosophy, in the envelope of actual value assessment.

1410

We've taken the railroads out of actual value and we have said we will impose so much per acre depending on where you are in every one of the nine regions. Again the argument, because you must at least make an attempt at being consistent, when it comes to farm land being farmed, the usage, like railways have a usage, or rights of way, farming is a usage, it is recognized, except that if there is a zoning change — you could farm for another 10 years — you will be assessed entirely differently. If the right of way is in the process of being negotiated, nothing changes until the bill of sale comes across the desk. That's the reality.

On the other hand, if there's a zoning change there will be no zoning change for the railways, I can assure you, for the rights of way. When we're saying the "burden," every dollar becomes a burden. We favoured the railways all the way through. At one time, when I was at transportation, back to back I had the people representing CP Rail and the sky was going to fall. They bitched, bitched, bitched that they were paying too much tax. They were playing the poverty game. They went from this and that to complete and total destitution, blaming the unfair competition given to truckers, the competitor.

Right after that CP trucks comes in, bought with CP Rail money, and the laments. They had tears in their eyes. It was as if they had lost their best friend and their last dollar at the same time. We had to take a recess. It was a very sad state of affairs, very sad history.

CNR is good railroad money. Did you see the last quarter? It was phenomenal by all accounts, a success story, and the other hand comes in. That's the one that rakes it in. The Delaware, they know the story of the Delaware. Better yet, it was bought with Canadian dollars. They don't go east-west any more; they go north-south.

Those people should pay their fair share of taxes to the government and I know your duty is there to implement it. When we talked about fairness, now you are consistent with your philosophy. You are giving it to the railway barons, and don't change "landlords" to "proprietor" or "owner." A landlord is a landlord, and you've given it —

Municipalities no longer have this. Now municipalities were going to be left on their own to do this and do that. A little more latitude; you've straitjacketed the municipalities. You're giving them the responsibility when it costs money and then you say, "You can't do this, that or that because we've got to please our friends."

I'll finish here on this, but I'm going to tell you this is not consistent because you are not doing it to others — or you are doing it to others. Then again, the bigger you are here, if you court the people in those clubs that the rest of us never have access to, that's where you will find them. They are the single-malt group. They are the finest of Bordeaux. They are not the dernier cru but the grand cru. They are la bonne fourchette, the fine table. The rest of us, the plebes, well: "Who are those people? Monsieur, you pay."

You will find those people at, what? The Boulevard Club? Help me. You know. You live there, you people. The Toronto Club, the Granite Club — unbelievable. They've had their way. They're getting away. They are running away from the field. It's a shame. They're giving preferential treatment. They've got both hands in your pockets. Wake up.

The Chair: Further comments or questions? We are voting on government motion number 26. Shall the amendment carry? Carried.

Government motion number 27 on the same section.

Mr Grimmett: I move that paragraph 2 of subsection 368.3(11) of the Municipal Act, as set out in section 36 of the bill, be amended by striking out "and may be restricted to a geographic area" in the second and third lines.

By way of background, this is a consequential amendment. It strikes out a reference to "geographic areas" which is unnecessary because a previous amendment provides that tax rates shall be set for each geographic area.

The Chair: Comments or questions? Shall the amendment carry? Carried.

Shall section 36, as amended, carry?

I have no proposed amendments for section 37. Shall section 37 carry? Carried.

Section 38: I have government motion number 28.

Mr Grimmett: I that subsection 370(4) of the Municipal Act, as set out in subsection 38(3) of the bill, be struck out and the following substituted:

"Assessment roll

"(4) If a bylaw is passed under subsection (1) before the assessment roll for taxation in the current year is returned the tax rate levied under subsection (1) shall be levied on the assessment according to the assessment roll for taxation in the previous year as most recently revised before the bylaw is passed or a preliminary assessment roll provided by the assessment commissioner for the purpose."

This proposed amendment clarifies the most recently revised assessment roll that's to be used for interim purposes in 1999 and beyond. The members may recall that this issue was raised by some of the municipal clerks and treasurers who appeared before us.

The Chair: Comments or questions? Shall the amendment carry? Carried.

Amendment number 29 in your package.

Mr Grimmett: I that subsections 38(4) and (5) of the bill be struck out and the following substituted:

"(4) Subsections 370(7) to (10) of the act, as enacted by the Statutes of Ontario, 1997, chapter 5, section 55, are repealed and the following substituted:

"Application after municipal restructurings

"(7) If as a result of a municipal restructuring parts of a local municipality as it exists on January 1 of a year were, at any time in the preceding year, in different local municipalities or were, at any time in the preceding year, territory without municipal organization, this section

applies for the purposes of the current year with respect to each such area as though it were a separate municipality.

"Interim levy for 1998

"(8) For 1998, the council of a local municipality may, before the adoption of the estimates for the year, pass a bylaw levying taxes on the assessment of property in the municipality rateable for local municipality purposes.

"Determination of interim taxes

"(9) Taxes under subsection (8) shall be levied on the assessment according to the assessment roll, as most recently revised before the bylaw is passed, for taxation in 1997 in accordance with the following:

"1. Taxes on residential and farm assessment shall be set by levying a mill rate that does not exceed the prescribed percentage (or 50% if no percentage is prescribed) of the residential mill rate levied in 1997.

"2. Taxes on commercial and industrial assessment shall be set by levying a mill rate that does not exceed the mill rate that would raise, on all the commercial and industrial assessment rateable for local municipality purposes in 1997, the prescribed percentage (or 50% if no percentage is prescribed) of the total taxes raised on that commercial and industrial assessment in 1997 including all business taxes levied in 1997. For the purposes of this paragraph, 'commercial and industrial assessment' does not include business assessment.

"3. For the purposes of calculating the total taxes in 1997 under paragraph 2, if any taxes were levied in 1997 for only part of the year because assessment was added to the assessment roll during 1997, an amount shall be added equal to the additional taxes that would have been levied if the taxes had been levied for the entire year.

"Relief for excessive interim taxes

"(10) If the council of the municipality is of the opinion that the taxes under subsection (8) on a property are excessive in relation to its estimate of the total taxes that will be levied on the property for 1998, the council may, by bylaw, reduce the taxes on the property under subsection (8) to the extent it considers appropriate.

"Clarification, property not taxable in 1997

"(11) Taxes may be levied under subsection (8) on a property that is rateable for local municipality purposes for 1998 even if the property was not rateable for local municipality purposes for 1997.

"Assessment added after by-law passed

"(12) A by-law under subsection (8) may provide for the levying of taxes on the assessment of property that is added to the assessment roll after the by-law is passed.

"Application of subsections (5) and (6)

"(13) Subsections (5) and (6) apply, with necessary modifications, to amounts levied under subsection (8)."

1420

This amendment meets the concerns of large municipalities, the Association of Municipalities of Ontario and the Association of Municipal Clerks and Treasurers of Ontario. It provides the method of levying the 1998 interim tax by using the 1997 assessment roll as last revised by the assessment commissioner in order to raise up to 50% of revenues raised in 1997.

Municipalities will be allowed to raise up to 50% of 1997 business occupancy tax revenues from realty assessment. Municipalities will be allowed to make adjustments to taxes on properties where the interim bill would be excessive relative to the anticipated 1998 final bill; for example, on farmlands and managed forests.

The option of using the 1998 interim role is removed. Municipalities in the process of restructuring may calculate their interim bills on the basis of collecting up to 50% of the taxes that were levied in the different parts that existed in the prior year.

Mr Pouliot: For some designation, the municipalities will be able to surpass on their interim tax levy, to go above 50%, and they will use as a method for calculation what they expect, what they anticipate.

Unless they have in hand the answers to the many questions, and if they have in hand the assessment, and if they have a hand on the numbers of appeals, they will really be guessing, in many cases. Anticipation will be grosso modo, will be some sort of a ballpark figure. And yet, they'll be asked to collect. It's the only way they can conduct business through the interim.

My understanding, and I need your help again, is that the municipalities would only be able, as is the case now, to levy 50% of the previous tax levy for general purpose, inclusive of the business occupancy tax. The sum for 1997 that was levied in 1998 for the purpose of interim shall not exceed 50% — which is no change from today, from what is being done now, from what has been done in the recent past.

What I understood from the clerks and treasurers and from AMO — I didn't see the focus, I didn't hear the focus on the two classes you have mentioned. I understood them to say, "Give us the tools to go above 50% for the interim tax levy for general purpose, regardless of class." That's what I heard.

Parliamentary Assistant, when you say you're responding to the requests of those two presenters, as representative, I don't think that's what — what you said is right but there is also a bigger picture which is what they said in terms of the overall tax levy.

By way of a comment, isn't this an admission that people will be hard-pressed to find the money, the taxes, that this is not revenue-neutral, that there will be some dislocation, that the uncertainty is such that people see — you see, the pendulum here, it says, "Well, give us more money," but I thought I heard your boss, Mike Harris, saying: "Oh, yes, I know we said this, that before the year 2000" — that's two years from now — "municipal councils should be able to pass along a savings from 5% to 10%." This was the boss man who said that.

Why would you need to appeal, to petition Parliament or the committee for more than a 50% interim tax levy? The main person, the Premier of this province, said you should be able to pass along savings of 5% to 10% if you tighten your belt. Doesn't that run contrary to what we heard? Then he went on to say, he and Mr Leach, that it was revenue-neutral, that taxes were not going to go up.

Under the government's leadership, are taxes going to go up or not? If so, where will they go up?

Nothing will happen here after December 15. People's minds will be on celebration, the family Christmas, the Nativity. That leaves us, what? Five weeks, maybe six weeks at the most, and then January 1 comes in and all this is implementation. It's time you gave us the answer now. "Are my taxes going up or aren't they?" says Harry Smith and Jane Jones. That's what they want to know now. By this time, you should have the answers to all this.

But the municipalities that have the inside, the clerk-treasurers, the front-liners are saying: "No, no, We need the tools to go and grab more than 50% because we're not going to be able to make ends meet until we strike our final levy."

What's happening here? The Premier says, the government says, there's going to be a decrease in taxes, and the municipalities and the accountants are saying, the administrator says: "No, no, don't believe that. We're going to need more money than in previous years to operate, so we come here and we ask you to give us a chance to go at more than 50%."

It doesn't address the request, by the way, because you're limiting them, you're freezing them. The real money is with the residential, commercial and industrial, but now less with industrial because of your courting, I mean your partnership, with the large industries.

The Chair: Further comments or questions? We're voting on government amendment number 29. Shall the amendment carry? Carried.

Shall section 38, as amended, carry?

I have a government amendment on section 39, which is number 30 in your package.

Mr Grimmett: I move that clause 371(1)(c) of the Municipal Act, as set in subsection 39(1) of the bill, be struck out and the following substituted:

"(c) prescribing percentages for the purposes of paragraphs 1 and 2 of subsection 370(9)."

This amendment is a consequence of the previous motion amending section 370 of the Municipal Act.

The Chair: Comments or questions? Shall the amendment carry? Carried.

Shall section 39, as amended, carry? Carried.

I have no proposed amendments for section 40. Shall section 40 carry? Carried.

On section 41, I have a government motion, number 31.

1430

Mr Grimmett: I move that subsection 41(1) of the bill be struck out and the following substituted:

"(1) Subsections 372(2) and (3) of the act, as enacted by the Statutes of Ontario, 1997, chapter 5, section 55, are repealed and the following substituted:

"'1998 assessment-related tax increase or decrease'

"(2) In this section,

"'1998 assessment related tax increase or decrease' means the amount for a property calculated in accordance with the following formula, subject to subsection (3):

"Amount = $^{\text{1997 Taxes (class)}}/_{\text{1998 Assessment (class)}}$ x 1998 Assessment (property) - 1997 Taxes (property)

"Where,

"'1997 Taxes (class)' means the total 1997 taxes for municipal and school purposes on land in the municipality that is in the property class that the property is in including business taxes imposed on persons carrying on a business on such land,

"'1998 Assessment (class)' means the total assessment for 1998 of the land in the municipality that is in the property class that the property is in and that is rateable for municipal purposes,

"'1998 Assessment (property)' means the assessment of the property for 1998,

"'1997 Taxes (property)' means the 1997 taxes for municipal and school purposes on the property, including business taxes imposed on persons carrying on a business on the property.

"Same

"(3) The determination of the 1998 assessment-related tax increase or decrease for a property is subject to the following:

"1. The 1998 assessment-related tax increase or decrease for a property in the farm land property class or the managed forest property class prescribed under the Assessment Act is 25% of the amount determined using the formula in subsection (2).

"2. This paragraph applies with respect to a bridge or tunnel that crosses a river forming the boundary between Ontario and the United States. The 1998 assessment-related tax increase or decrease for land used for the purposes of the bridge or tunnel is the 1998 taxes on the land minus the 1997 taxes on the land for municipal and school purposes. In this paragraph, 'land used for the purposes of the bridge or tunnel' includes land at the end of the bridge or tunnel used in connection with the bridge or tunnel, including duty-free stores.

"3. If a new improvement to a property is reflected in the assessment used to determine the 1998 taxes but was not reflected in the assessment used to determine the 1997 taxes, the 1998 Assessment (property) shall be adjusted, in calculating the amount under subsection (2), to what it would be if the improvement was not reflected in the assessment for 1998.

"4. If an improvement to a property was reflected in the assessment used to determine the 1997 taxes and, because of a change related to the improvement, the improvement is not reflected in the assessment used to determine the 1998 taxes, the 1998 Assessment (property) shall be adjusted, in calculating the amount under subsection (2), to what it would be if the improvement was reflected in the assessment for 1998."

The amendment clarifies the meaning of assessment-related increase or decrease by way of a formula. This ensures that the phase-in is limited to assessment-related tax impacts excluding other changes occurring as a consequence of education finance reform and the Who Does What initiative. The amendment also clarifies the phase-in treatment of international crossings.

The Chair: Questions or comments? Shall the amendment carry? Carried.

I have another proposed amendment, number 32 in your package, from the government.

Mr Grimmett: I move that section 41 of the bill be amended by adding the following subsection:

"(1.1) Subsection 372(5) of the act, as enacted by the Statutes of Ontario, 1997, chapter 5, section 55, is amended by adding the following paragraph:

"8. For each property class for each year, the adjustments made under the bylaw must not affect the total taxes for municipal and school purposes on the land in the municipality that is in the property class and that is rateable for municipal purposes. For the purposes of this paragraph, the residential/farm property class, the farm lands property class and the managed forests property class prescribed under the Assessment Act shall be deemed to be a single property class."

By way of explanation, the amendment clarifies that tax rate ratios and ranges of fairness must always be adhered to even during a phase-in. Consequently, phase-ins must always be funded within each class. This prevents municipalities from shifting taxes to already overtaxed classes to fund residential phase-ins. The exception is that a phase-in of residential or farm lands or managed forests must be financed from those classes treated as a single property class.

Mr Pouliot: Very little room to breathe here, to conduct business. It seems that at every opportunity you just tighten the vice. You're sort of establishing a stranglehold. I guess your final act of torture will be that of a manicure.

On the one hand, you're giving municipalities more jurisdictional capacity, more responsibilities, but then you seem to sense what's going to happen here, severe dislocation in some cases, while you keep your foot to the floor and try to put the brakes on at the same time by saying, "If this happens, we will stop the municipalities from doing this, acting too fast." Yet they're going to have all those responsibilities and you know that they'll be forced to pull the trigger. They'll say: "We need the money," as simple as that, "and we have fewer dollars in terms of transfer payments flowing from there to the municipality. We have a new assessment base, we have all this downloading. Now we must pay for that so we've got to go and collect the money."

You'd better have the big chequebook when they come calling, because now this is the last stand, the last vestige. Now they no longer have the power. They must do it by instalment. They must take their time.

You have to pay your bills. Where I live in Manitouwadge, it's about 800 miles north of Toronto. We've opened our books. It's a village. We're not on the Trans-Canada Highway, we're inland. The closest house is 100 kilometres, 65 miles away. That's our neighbour, the closest house. We're somewhat isolated.

We have to be resourceful, but we lack not much. We're 3,200 people, so it's simple: We go to the municipal office and we all help one another. We started to get figures from the government. We know we're going to get a 50% tax break on our small properties. We're a company town so except for the sidings we all look alike. That's okay. We get a 50% tax break there, but now we've got to pick up the price of OPP. We know what that is. Right now, from what we know, we're about $500 extra. Our industrial base is pretty well gone. We're in mining, and you know what the Assessment Act does there. Our commercial base, you've got two small stores in town, a catalogue business to get away. We do a lot of dealing with them. Then we go to Thunder Bay or we go to Sault Ste Marie and that's 400 kilometres in each direction.

So now we're $500 and we don't know who's going to pick up the slack. Are our taxes going to go up by $500? No one has told us, and we've asked: "Where do we apply? Where is the formula? Where is the form so we can save Manitouwadge? This is our certified accounting etc. We're short $500 per household. What are we going to do?"

You know what they're going to do? They're going to read this and they will comply. But if you restrict them too much, then they can't. Then they have to say: "You there, you cannot charge more than this. The province is going to set the fee but leave you the bill." They'll set the policies but leave you the bill. The cheque is not in the mail. I've lived too long to believe in Prince or Princess Charming. I've discarded it long ago. But it seems that they discarded me before; maybe it never existed. You are messing up another municipality, I'm sorry, in the real world big time. I'll stop here.

1440

Schreiber, right now is looking at a 75% to 110% increase. They have zilch in terms of revenue, unless you send them the bill by January, some cheques at the end of every month, because the upper tier will tell them how much it costs for ambulance service. They've never paid for that before. There are many seniors in Schreiber — it's an old railroad town — so more hospital care; it's normal. They've never had to pay for policing, OPP, but I'm telling you that they're going to have to pay for that. They're going to have pay for social housing. They've never had to pay for that before. They'll save a few hundred dollars on the school taxes. It doesn't add up in the case of Schreiber. I've heard some people say, "Why don't we go into receivership"? It's like personal bankruptcy for a municipality, if you wish. "There are the keys." Of course, they will not do this.

Now it's restricted because you want to look good. You want to be the nice people. You would like to be loved. You'd like people to say nice things about you and preferably nice things to you. That way your vanity and egocentricity might propel you for a second term, like you would return. I understand that, that feeling of you'd like to be wanted, that someone is waiting for you, because lately it's been pretty bad going back home. You must miss that cuddly feeling of loved ones. You never thought it was like that, the scorn of the populace. You never thought it would be like this. You may no longer be able to go back home.

Your amendment number 33 —

The Chair: We're on 32.

Mr Pouliot: I'm sorry, 32. Another case of undermining their responsibility. Now they are really something: "You can't do this, you cannot do this, you cannot do this. You've got to stagger it." This is not coupons or strip bonds coming to maturity when you are five years or two years to retirement. This is the money that is needed two months from now and nobody has given me the answer where the shortfall will come in. On January 31, when it's time to pay the bill, when it's time to meet the paycheques, where are you going to take the difference? You can only go to 50% of interim tax levy for the previous year. By the time you get the assessment it will be late April, and then you will be hard pressed to go one massive shot, one last call to prayer, because you're going to have one final levy with all the reassessment and you're going to be in debt in some cases. Some of us will be rolling ourselves on the floor and our index finger will be long. You'll think God is talking to you, "We told you so, we told you so, we told you so."

By that time maybe a revolution will have hit the wall, or certainly the precipice, the cliff, the abyss. You'll have blood on your hands. People are gathering already. They expect 50,000 people again within a couple of days to come and tell you their dissatisfaction; 90% of them will have a degree in their back pocket. They represent the most educated.

Go on with the bill, vote for it, go to it, my friends. You don't need to call Jack Kevorkian, you can do it all yourselves.

Mr Phillips: The purpose of this amendment is to prevent municipalities from trying to cushion the blow on some of the residential and farm properties by putting part of the cost on to the commercial and industrial property taxpayers. I know this is what the taxpayers' federation probably wants but there will be some municipalities that are going to have real difficulty coping with this bill, particularly for the residential property taxpayers. For example, the government has determined you're going to shift about $300 million off apartments on to single-family homes — that's fine — plus a whole bunch of other things.

I always find that Al Leach will say, "We trust the municipalities," until it comes time for them to make any decision, and then he really doesn't trust them. Al Leach hated the council. He'll tell you this. The thought of a democratically elected body telling the general manager of the TTC what to do was just an anathema to him. His face would get so red that you thought it was going to explode, because the elected officials had the audacity to suggest any suggestions to the general manager of the TTC. The duly elected people — he thought they were bungleheads.

I've told this story publicly before so I'll tell you again. I was Minister of Labour and we had a dispute between the union at the TTC and the TTC. The government of the day had to bring in legislation. I asked both parties to come in, the union and Metro council. I asked them both to come in to my office just so I could explain what I was doing. I asked them to be there at 10 o'clock. The union knew that. They were there at 10 o'clock and I explained to them. Al Tonks, Lois Griffin who was the chair of the TTC at the time and General Manager Leach showed up 10 or 15 minutes late and I told them what I was going to do. Al's face went so red, again, I thought it would explode, and he said, "Have you told the union what you're going to do"? I said, "Yes, I have." "Let me tell you, if you go ahead with what you're planning here, I'm going to run against you in the next provincial election and defeat you."

I tell that story because the architect of this is somebody who says, "Surely you trust the local politicians," and many of you in the room are probably former local politicians, I suspect. I think Mr Pouliot was a councillor in Manitouwadge. I don't know, Mr Rollins, whether you were or not, but many of us were. What this bill does is essentially tell the local municipalities exactly what they can and cannot do. It's very prespective.

This particular one is another piece of prescription that, no matter how tough things get with your residential and your farm property taxpayers, there is no way you can even temporarily put any of this on to the commercial and industrial property taxpayers. You may want to do that. I think you're handcuffing local municipalities, when you see how it's going to impact on them.

That's the intent of the motion. The business community may think that's good. But for local municipalities that are going to try and implement this, as my colleague said, it's a bit like you've got a straightjacket, the handcuffs, the belts and the ropes all tied around them, and all they've got left, probably, is their voice now. So there it is.

Mr Pouliot: After Mr Phillips had been the Minister of Labour, I had the honour to be Minister of Transportation. Those were the days when Mr Leach was at the TTC. It was like a pilgrimage; you could almost set your clock by it. They would request a meeting about every second month, the Toronto Transit Commission with Mr Leach as the chair. At the beginning it was interesting, but you got used to it. They came calling for money, and it became sort of pitiful, really. You would ask Mr Leach to look at ways of cutting things and he would swear that the TTC was lean and mean; now that the tables have turned he's telling municipalities, the same thing.

I will miss Mr Leach in January when the shufflette takes place, be it that from time to time people don't necessarily get better. Health is an important element, an important feature in politics. We try to hang on, to keep it. Then there comes a time when one would wish to spend more time with the family. Some of the jackals will finish the story, if you wish, but it will have been a sad legacy.

1450

Suffice it that when Bill 26 hit the floor, when Bill 26 was called, I felt really, really bad. The job that one Bob Rae did on the minister, and we were all there, I would not have wished that on anyone. I believe that the minister was so shocked that he is still reading Bill 26 as we look at 106 and then 149. I don't believe — and I could be

wrong, I am so often — that he has a real hands-on, full understanding of el bill. There again, I could be wrong, but I've heard it said that it's quite demanding.

I won't say any more, but January 1 looms large indeed and you're going to have all this responsibility. People are going to try, in small towns with little resources, to come up and associate with the verbiage, and when they call your office it's going to be like the family support scenario. They won't have an answer or they'll have a generic. The people will try to answer them, and we've had some examples today, but they really don't know the answers themselves, so it rings hollow. "Oh, yes, thank you very much, thank you very much." You don't want to appear as if you don't want to never understand, but they never told you anything, and 15 minutes after you've got to deal with this. How many more amendments do you have?

The Chair: There are 40, I believe. We're on 32.

Mr Pouliot: We're on 32 and we have 40. Thank you.

The Chair: Sorry, 42. We're on number 32.

We're voting on government amendment 32. Shall the motion carry? Carried.

Government motion 33.

Mr Grimmett: I move that section 41 of the bill be amended by adding the following subsection:

"(1.2) Subsection 372(9) of the act, as enacted by the Statutes of Ontario, 1997, chapter 5, section 55, is repealed and the following substituted:

"Sharing so that no surplus or shortfall

"(9) The council of an upper-tier municipality that passes a bylaw under subsection (1) shall pass a bylaw requiring adjustments between the upper-tier municipality and the lower-tier municipalities so that neither the upper-tier municipality nor any lower-tier municipality has a surplus or shortfall as a result of the phase-in of 1998 assessment-related tax increases or decreases."

By way of background, this amendment clarifies that neither an upper tier nor a lower tier shall be in a surplus or deficit position solely due to the financing of a phase-in and requires the sharing of any surplus or deficit to ensure this.

The Chair: Shall the motion carry? Carried.

Government motion 34.

Mr Grimmett: I move that subsection 372(11) of the Municipal Act, as set out in subsection 41(2) of the bill, be struck out and the following substituted:

"Application to payments in lieu

"(11) For the purposes of this section, payments in lieu of taxes, other than an amount referred to in subparagraph ii of paragraph 24 of subsection 3(1) of the Assessment Act or an amount received under section 157 or subsection 158(4) of this act, shall be deemed to be taxes and the land with respect to which such payments in lieu of taxes relate shall be deemed to be rateable for municipal purposes."

The reason for the amendment is that it clarifies that properties on which payments in lieu are not based on assessment are excluded from phase-in calculations.

The Chair: Shall the motion carry? Carried.

Government motion 35.

Mr Grimmett: I move that subsection 372(12) of the Municipal Act, as set out in subsection 41(2) of the bill, be amended by striking out the second sentence.

The proposed amendment is a technical one which would delete a phrase that is redundant relating to the amount of taxes a municipality is required to pay to a school board.

The Chair: Shall the motion carry? Carried.

Shall section 41, as amended, carry? Carried.

I have no proposed amendments for section 42. Shall section 42 carry? Carried.

Section 43: I have government motion 36.

Mr Grimmett: I move that subsection 373.1(11) of the Municipal Act, as set out in section 43 of the bill, be struck out and the following substituted:

"Definition

"(11) In this section,

"'land used for the purposes of the bridge or tunnel' includes land at the end of the bridge or tunnel used in connection with the bridge or tunnel, including duty-free stores."

By way of explanation, the previous wording was too broad. This amendment clarifies that land at the end of a bridge or tunnel, including duty-free shops, will be considered to be land used in connection with the bridge or tunnel. These entities are subject to municipal tax but not subject to education tax.

Mr Phillips: Tutti what?

Mr Grimmett: Tutti frutti.

The Chair: Shall the motion carry? Carried.

Shall section 43, as amended, carry? Carried.

Sections 44 to 46: I have no proposed amendments. Shall sections 44 to 46 carry? Carried.

Section 47: I have government motion 37.

Mr Grimmett: I move that section 442.1 of the Municipal Act, as set out in section 47 of the bill, be struck out and the following substituted:

"Rebates to eligible charities, etc.

"442.1(1) The council of a municipality, other than a lower-tier municipality, may pass a bylaw providing for rebates of taxes to all eligible charities and to any similar organizations specified in the bylaw, for the purpose of giving the charities and similar organizations relief from taxes on property that they occupy.

"Amount of relief

"(2) The rebate provided by a bylaw under subsection (1) to each eligible charity and similar organization shall not exceed 40% of the taxes that would otherwise be levied in respect of land occupied by the charity or similar organization.

"Equal treatment

"(3) The amount of the rebate provided by a bylaw under subsection (1) to each eligible charity and similar organization shall be the same, when expressed as a percentage of the taxes that would otherwise be levied in respect of land occupied by each charity and similar organization.

"Application

"(4) A bylaw under subsection (1) may apply only to land in,

"(a) the commercial property class or the industrial property class, as prescribed under section 7 of the Assessment Act; or

"(b) a property class prescribed under section 7 of the Assessment Act that is not mentioned in subsection 7(2) of that act.

"Who gives rebates

"(5) Rebates under a bylaw under subsection (1) shall be given,

"(a) if the bylaw is passed by the council of a local municipality, by the local municipality;

"(b) if the bylaw is passed by the council of an upper-tier municipality, by the lower-tier municipalities.

"Sharing costs of rebates

"(6) The costs of a rebate of taxes on a property shall be shared by the municipalities and school boards that share in the revenue from the taxes on the property in the same proportion as the municipalities and school boards share in those revenues.

"Definitions

"(7) In this section,

"'eligible charity' means a registered charity as defined in subsection 248(1) of the Income Tax Act (Canada) that has a registration number issued by the Department of National Revenue;

"'lower-tier municipality' has the same meaning as in section 361.1;

"'upper-tier municipality' has the same meaning as in section 361.1."

By way of explanation, the regulatory power to provide rebates of taxes to eligible charities and similar organizations occupying land in the commercial and industrial property classes is removed and replaced with legislative provisions allowing municipalities with ratio-making powers to provide rebates to such organizations.

Charities are defined to be the same as registered charities defined under the Income Tax Act.

Municipalities would have the power to include similar organizations as specified by bylaw to be eligible for the tax rebate. Municipalities may rebate up to an amount equal to 40% of the taxes payable. The percentage amount of the rebate must be the same for all organizations named in the bylaw. The cost of the rebates will be shared by the upper-tier municipality, if any, and with any school boards.

1500

Mr Pouliot: You attempt to address it. It's widely expected that the number of charities and the needs that they will be asked to address will only increase. In fact, they will increase dramatically because of your agenda. When we're asking the municipality not to go more than 40%, let's not dream here; municipalities will be very hard pressed in most cases to give a break to anybody. So, again, you can play the good Samaritan role by saying, "We give you the right to decrease and so on."

The reality is that the possibilities to enact, to pass along a saving to give people a break or encouragement, will just simply not be there. The need will only increase. One reason why it will increase is because you had a choice to keep some basic services, or more of the basic services, to elect for the status quo and pay down the debt, but good economist that you are, you have chosen to increase the burden by borrowing money to give a tax break. It makes very little sense to me in terms of business acumen.

This is a choice that you've made. You claim to have been $11 billion in deficit, plus the debt, and instead of focusing on this while maintaining services, what you've done is said: "Okay, it's party time. We'll ask that the credit limit on our plastic be increased." So you went on another big spending bender, all with borrowed money. Now you find you must face the consequences and find $5.4 billion a year.

Incidentally, it benefited the richest people in the province because there was no capping. We know of some cases where the tax per year, the benefit of it, is over $1 million a year when all the increments take place. I saw again yesterday that the CEO of Magna International, because of their bonus system, made in excess of $25 million in remuneration, which is salaries and bonus options. I don't begrudge the person that in the least but that person will save, by virtue of your 30% decrease, in excess of $2 million in one year. At the same time you close hospitals, but that's okay.

Now, let's not dream in colour here when we say that "each eligible charity and similar organization shall not exceed 40%." It's nicely said, it's well intended but it has absolutely no meaning. People will not be in a position to pass along a break because of your cutbacks.

The Chair: Further questions or comments? Shall government motion number 37 carry? Carried.

Shall section 47, as amended, carry? Carried.

I have no proposed amendments for sections 48 through 64. Shall sections 48 through 64 carry? Carried.

On section 65: I have a proposed government amendment, number 38.

Mr Grimmett: I move that subsection 65(2) of the bill be amended by adding the following subsection as subsection 52(3.2) of the Power Corporation Act:

"Same

"(3.2) The corporation shall pay in each year to any municipality in which is situated land used as a transmission or distribution corridor and leased to another person for rent or other valuable consideration the total amount that the tax rate in the municipality for the property class prescribed under the Assessment Act in which the land is classified would produce based on the current value of the land as defined in section 1 of the Assessment Act and subsection (2) does not apply with respect to the land."

By way of explanation, this amendment to the Power Corporation Act adds a new subsection to specify that Ontario Hydro transmission or distribution corridor land leased to another person for rent or other valuable consideration will be taxed on the basis of current value rather than as a right of way.

The Chair: Questions or comments? Shall the amendment carry? Carried.

Shall section 65, as amended, carry? Carried.

I have no proposed amendments for sections 66 through 72. Shall sections 66 through 72 carry? Carried.

Mr Wettlaufer: I believe there is an amendment for section 72.

The Chair: That's a new section 72.1, so I think we can carry 72. What we'll do, if it's the committee's pleasure, is pass sections 66 through 72 and then deal with 72.1 as a new section. I'll ask the question again: Shall sections 66 though 72 carry? Carried. On section 72.1, there is a proposed new section from the government side.

Mr Grimmett: I move that the bill be amended by adding the following section:

"Interim levy bylaw

"72.1 A bylaw passed in December of 1997 levying rates for the purposes of interim financing under a provision of the Municipal Act or any other act ceases to have any effect on January 1, 1998. This section does not apply to a bylaw passed under section 370 of the Municipal Act, as enacted by the Statutes of Ontario, 1997, chapter 5, section 55 and amended by section 38 of this act."

By way of background, this section provides that only section 370, as amended in this bill, is to be used for the purposes of adopting an interim levy bylaw.

Mr Pouliot: What is the significance of this?

Mr Tassonyi: When I had to go up to Thunder Bay for a municipal finance officers' conference, I found out that the city of Thunder Bay had a private act which provided for interim financing under its provisions. Our intent was that the provisions in this bill be used by municipalities to pass bylaws in December taking effect as of January 1 to provide for the interim financing. It is meant to cover both the Municipal Act and any other private municipal act that's out there to use the provisions here.

The Chair: Further questions or comments? Shall the new section 72.1 carry? Carried.

Sections 73 through 75: I have no proposed amendments. Shall sections 73 through 75 carry? Carried.

On section 76: I have three government motions, numbers 40, 41 and 42. I'll ask Mr Grimmett to start with number 40, please.

Mr Grimmett: I move that subsection 76(1) of the bill be amended by striking out "subsection (2)" in the first line and substituting "this section."

This is a housekeeping change to the commencement section of the bill.

The Chair: Comments or questions? Shall the section carry? Carried.

Number 41.

Mr Grimmett: I move that subsection 76(2) of the bill be struck out and the following substituted:

"Same

"(2) Sections 3 and 11, part II (sections 21 to 48), part III (sections 49 to 70) and sections 71, 73 and 74 come into force on January 1, 1998.

"Same

"(3) Subsection 6(2) and section 7 come into force on a day to be named by proclamation of the Lieutenant Governor."

This new subsection postpones the provisions regarding the cessation of apportioning value to tenants until a proclamation date is named by the Lieutenant Governor in order to maintain the current provisions until the Education Act is changed.

Mr Pouliot: Maybe I should have more self-discipline, but I don't totally get it. What has this got to do with Bill 160? What's the connection here? You just said, "until Bill 160 comes into effect." What's the connection here?

Mr Grimmett: Mr Sholtack, could you provide some help on that?

1510

Mr Sholtack: Certainly. The provisions referred to are the ones that delete the current subsection 14(3) of the Assessment Act, which provides for the allocation of tenants' assessments in multi-tenanted properties. Section 7 provides for the elimination of tenants' assessments under the act. Currently tenants are assessed and that's done for business occupancy tax purposes. With the new act, there'll be no need for that and so those provisions are being removed.

However, there will be new requirements enacted under Bill 160 with respect to allocation of residential tenants' assessments for school support purposes and these provisions are to come in at the same time. One is not going to anticipate the other. These will be repealed when the new provisions under the Education Act come in.

Mr Pouliot: Thank you. If the new Education Act comes in.

Mr Sholtack: Certainly.

Mr Pouliot: If and when. That scares me when I hear it. I feel uneasy when I hear "160." When we mesh the legislation we have to be — I'll give you one example: At one mesh, it's legislation to marry Bill 136. One would have had to change that legislation because the way Bill 136 was presented and its final analysis — it was not the same thing at all. It could have talked about — completely different and so on. The government was forced to backtrack, we know. It was sort of sounding the bugle of retreat in this case.

When I hear "Bill 160," I don't know what twist it will take. It depends on what channel I flick on. All I know is that this is the biggest protest in the history of North America in terms of the teaching profession. It's the biggest struggle ever in North America.

I don't know what Bill 160 will do and I wouldn't wish to have any legislation — I know it has to be — tied to Bill 160, because from what I read in the newspapers and also from what I watch on television, it doesn't augur well before, during and after. I would not want to depend on Bill 160. I don't know what they will — the government does not know clearly what it will do.

Mr Sholtack: If this is some reassurance to you, this is the effect of these provisions, that the repeal of these provisions will only happen upon proclamation. They will

continue, should Bill 160 not be enacted, so this should give you some comfort on that score.

Mr Rollins: He doesn't realize that —

Mr Pouliot: Oh, I do realize, sir —

Interjection.

Mr Pouliot: Dear colleague, you are of little help when all you succeed in doing is not a stay of execution. You've succeeded in reducing the voltage. Nothing with your law, I'm going to tell you, comforts me because you consistently disturb the marketplace and it hurts a lot of people. I want to see stability and I want to see things prosper. You are screwing up big time and this is the final straw on this ill-fated bill.

What you are seeing with Bill 160, by the way, might pale in comparison to what you will see next June and July when people get their property tax bill. In some cases it will triple.

The Chair: Further comments or questions? Shall government motion number 41 carry?

Government motion number 42.

Mr Grimmett: I move that section 76 of the bill be amended by adding the following subsection:

"Same

"(4) Subsection 20(2) comes into force on a day to be named by proclamation of the Lieutenant Governor."

This specifies that the new subsection of the bill dealing with palpable or obvious errors in the assessment roll would come into force when proclaimed by the Lieutenant Governor.

The Chair: Comments or questions? Shall the motion carry? Carried.

Shall section 76, as amended, carry? Carried.

I have no proposed amendments to section 77. Shall section 77 carry? Carried.

Shall the title of the bill carry? Carried.

Shall the bill, as amended, carry? Carried.

Shall I report the bill, as amended, to the House? Carried.

I just want to give committee members notice. When the House comes back on the 17th, we will be preparing for pre-budget hearings so we will call the subcommittee. Committee members, if you have any ideas or anything you want to have input on you had better start thinking about it now.

I now adjourn until the call of Chair.

Mr Phillips: Light the fuse when this thing blows up in July.

The committee adjourned at 1516.

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Mr Toby Barrett (Norfolk PC)

Also taking part / Autres participants et participantes
Mr Almos Tassonyi, senior economist, taxation policy, MAH
Mr Bill Wong, manager, tax design and legislation branch, FIN
Mr Gerry Sholtack, senior counsel, FIN

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Ms Alison Drummond, research officer, Legislative Research Service
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F-52 & F-53

ISSN 1180-4386

Legislative Assembly of Ontario

First Session, 36th Parliament

Assemblée législative de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Thursday 27 November 1997
Thursday 11 December 1997

Standing committee on finance and economic affairs

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Journal des débats (Hansard)

Jeudi 27 novembre 1997
Jeudi 11 décembre 1997

Comité permanent des finances et des affaires économiques

Élection du Président
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Rapport du sous-comité

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Published by the Legislative Assembly of Ontario

Service du Journal des débats
3330 Édifice Whitney ; 99, rue Wellesley ouest
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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 27 November 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 27 novembre 1997

The committee met at 1008 in committee room 1.

ELECTION OF CHAIR

Clerk of the Committee (Ms Rosemarie Singh): I'd like to call this meeting to order. Honourable members, it is my duty to call upon you to elect a Chair. Are there any nominations?

Mr E.J. Douglas Rollins (Quinte): I would like to nominate Mr Guzzo for Chair.

Clerk of the Committee: Any further nominations? There being no further nominations, I declare nominations closed and Mr Guzzo elected as Chair of the committee.

The Chair (Mr Garry J. Guzzo): Thank you very much. We'll record that as unanimous. Mr Pouliot voted for me, right? All right. I just would like to have that on my record, if nothing else out of this place. I very much appreciate it, sir, from a man of your background and understanding. Am I going to have difficulty here with you throwing things, though? That is what bothers me. This is going to haunt you for the rest of your career and will start this morning, Gilles.

Anyway, thank you very much. The first item we will deal with is the subcommittee membership.

SUBCOMMITTEE MEMBERSHIP

Mr Rollins: I'd like to move that the following membership changes take place on the subcommittee on committee business: Mr Guzzo replaces Mr Young as Chair and Mr Baird replaces Ms Bassett.

The Chair: Thank you very much. Shall the motion carry? All in favour? Contrary, if any? Carried. Thank you. Any other business?

Mr Gerry Phillips (Scarborough-Agincourt): I gather, Mr Chair, the next step is for the subcommittee to get together and lay out a plan for our budget consultations, and then I assume the committee has to meet some time in the next couple of weeks to approve the plans and we're ready to go.

The Chair: You are suggesting, Mr Phillips, that the subcommittee meet immediately? Any objections? Immediately following the conclusion of this meeting the subcommittee will convene? Agreed.

Any other business? A motion to adjourn? Moved by Mr Rollins. Carried. Thank you very much.

The committee adjourned at 1010.

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 11 December 1997

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Jeudi 11 décembre 1997

The committee met at 1002 in room 151.

SUBCOMMITTEE REPORT

The Chair (Mr Garry Guzzo): The only item on the agenda this morning is the report of the subcommittee. Do you all have a copy? Any discussion?

Mr John R. Baird (Nepean): Yes. Mr Crozier, is your colleague coming or are you representing him this morning?

Mr Bruce Crozier (Essex South): I'm representing my colleague Mr Phillips.

Mr Baird: I didn't want to start in case he was coming.

This was an issue that we spoke about at the subcommittee. In the time since the subcommittee I've thought about it and I concur with my initial impression. We want to make one small change to number 1 of the report of the subcommittee. I seek guidance. Do I move a motion to amend?

The Chair: I think you'd move a motion to deal with the subcommittee report first and then we can deal with amendments.

Mr Baird: I move adoption of the report of the subcommittee on committee business dated December 3, 1 through 7.

The Chair: Agreed? Contrary, if any? Carried.

Mr Baird: Do we do an amendment before that carries?

Clerk of the Committee (Ms Rosemarie Singh): Yes, you have to.

The Chair: No, the motion is to deal with it.

Mr Baird: Oh, the motion is to deal with it, okay.

The Chair: It's now moved and carried.

Mr Crozier: Just one small point, Chair. You moved items 1 through 7?

Mr Baird: Yes.

Mr Crozier: Does that mean you're not moving anything with regard to the committee meeting, that being if the committee travels or if the committee does not travel? That's part of the report, I take it.

Mr Baird: My intention was to move 1 through 7 and all that part of the committee report. You're right, you're very correct. If the committee does not travel, the committee will proceed as follows, 1 and 2.

The Chair: You want to deal with it all at once?

Mr Baird: No. Do I move a motion to adopt the committee report and then before we vote on that, move an amendment?

Clerk of the Committee: Yes.

Mr Baird: I guess we would —

Mr Crozier: I think you have to move it all.

Clerk of the Committee: Yes.

The Chair: Or you need permission to divide it. You're not seeking permission to divide it.

Mr Baird: Okay.

Mr Crozier: I think if you move it all, then we can massage it after that.

Mr Baird: I would move adoption of the subcommittee report on committee business dated December 4, 1997.

The Chair: It's on the table. Proceed.

Mr Baird: I would further move to amend the report on page 1, number 1, by striking out "That the minister be allotted two hours" and substituting "one hour" and "That the ministry staff be present for the minister's presentation, and for an additional two hours to answer questions from the committee," and further, to strike, "If the committee travels," 1 to 5. Can I speak to that?

The Chair: Let me see if I have it clear. You want to make the amendments to limit the minister's allocation to one hour, and two hours for the staff?

Mr Baird: Yes.

The Chair: And then you want to move to delete the portion, "If the committee travels"?

Mr Baird: Yes.

The Chair: Proceed.

Mr Baird: I just want to make some brief comments. I think on just about 95% of the issues raised by all three parties there was a substantial amount of agreement of the subcommittee, so these are two exceptions to all the issues we discussed.

With respect to having the minister, these are pre-budget consultations where we want to hear from the public and consult with them. As members of the Legislative Assembly, we can of course question the minister on a daily basis as to the financial policies; this is our one occasion to ask the public their views, assuming the precedent has been in the last two years that the minister appear for one hour and that senior officials from the ministry appear for two hours.

There are a number of officials. I know my colleagues and I would like to discuss — whether it's the deputy minister or the assistant deputy minister and chief econo-

mist, the assistant deputy minister of the office of budget and taxation, the chief executive officer of the Ontario Financing Authority and several other directors for the various branches of the ministry, whether they deal with fiscal policy, tax policy, economic analysis or economic issues. We would like to follow the procedure used in the last two years so we have sufficient time to deal with those concerns.

With respect to travel, it hasn't been the practice of the committee to travel and for the two weeks we would just as well follow the precedent from the previous years and meet here at Queen's Park.

The Chair: Thank you. Any comment?

Mr Gilles Pouliot (Lake Nipigon): Oh, yes, Chair. Pre-budget consultation is an annual event. It's something that all parties certainly look forward to. There are no more important documents than those of public finance.

To come up with an allotted time, to reduce it by half, from two hours to one hour, strikes me as being asinine. I mean, the minister is a public servant. It is the people's hard-earned cash that he is accountable for. He is not made of porcelain. He needs not your protection or that of the committee. This is not His Excellency that we are dealing with. It is a public servant, not the other way around. To allow His Grace to pay us the pleasure of an audience for an hour, we shall be so thankful.

Thankful, my foot. With respect, if I may be so bold — heck, Mr Chair, we demand, we insist that two small hours of his very precious time be given to the public so that he be made accountable for the money that he usurps from our pockets and purses. Dr Eves should be here. "Yes, Doctor, feel my purse." That's what the public will be telling him, but he won't be there because the gang will have sheltered him. This is a closed shop. This is a closed audience.

My God, we too had the opportunity to serve. We always made ourselves available to the public. We welcomed criticism. We learned by it. Oh, we got bruised from time to time, but we recuperated. These are supposed to be good times, except for the fallacy of having a $6-billion debt in an economic recovery of some proportion.

1010

There are some people, and I belong, as I conclude, to that school, who would prefer that you pay your debt, you pay the mortgage, but you're still borrowing. I mean, you've got a $6-billion debt, so I can understand when all is said and done — I'll be a good Samaritan — why he would be shy, why he would not necessarily wish to appear. For him and for them it's not an immaculate record. The record is blotted to the point where it takes on extraordinary proportions, so I can understand. But I feel insulted, personally, as a member of the New Democratic Party that the minister would not give us two hours of his time.

Maybe he has other endeavours. It takes three times that, the way he golfs, to play 18 holes. You know of which I'm talking, the game of golf. You're familiar with that. Six hours on the golf course but not two hours in front of the committee once a year. I rest my case. Unbelievable.

Mr Crozier: I'd like to support Mr Pouliot in his argument, with the emphasis on accountability. The minister is the elected and appointed official when it comes to the finances of this province. He is accountable to the electors. I think to suggest to us that we want to listen to ministry staff, to bureaucrats more than we want to listen to the minister is not correct. In fact the minister should not only deem it his responsibility to appear before the committee for a reasonable length of time, but I would think the minister would want to. He's the top finance official in this province, and certainly a person of Mr Eves's ability should have such a handle on his ministry that he needn't have officials around at all for that matter. But certainly they can be at his side if he needs any assistance on some smaller matters.

I'm surprised that you could suggest this change and not have a smile on your face, because it appears as though the minister, as Mr Pouliot has said, just simply dismisses this committee and once a year at least doesn't want to spend a couple of hours before it. I would think even the government members might appreciate having access to the minister for a couple of hours, rather than the bureaucrats.

I think the subcommittee in its first thoughts should remain the same, that the minister appear for two hours. Mr Baird said he gave it some thought. It would appear in the meantime, I suggest, that the minister has given it some thought and just simply doesn't want to appear for that length of time. I think it's his obligation to do so.

On the question of travel, being a small, urban-rural member of the Legislature, I would like to see the committee consider visiting some other areas of the province. Notwithstanding that it may have been past policy, this government hasn't hesitated to change things that were past policy and now is another opportunity for that.

You know, the world does not revolve around Toronto. There are citizens and there are groups and representatives of citizens outside this great city that may not have the opportunity to attend because of restriction on travel. We want to take the government to the people, and I don't think there's any better way to do it or any ministry that, again, has more of an obligation to go to the people of this province than in the financial area. It is the ministry that essentially controls everything else and I would hope that this committee would give some consideration to breaking with tradition and taking the government to the people. I can think of no better way to do that than to simply take four days to travel to various geographical sections of the province.

Mr Baird: I'd just take a few moments to respond to some of the thoughts of my colleagues. The Minister of Finance is accountable for the finances of the province. I think what we're talking here is not a reduction but just following the past practice of what was employed in the previous years.

This process is about consulting the public; it's not about an inside baseball game. We want to consult the

public before the budget decisions are made and long before it's presented. We want to hear from the public and get a sufficient amount of time from the officials as well, who have to go out and borrow the money on the international market to finance our debt, or whether it's the effect of various tax issues or economic backgrounds. Certainly the minister, under the discussions we've had, would appear for more than twice as long as each of his officials. If we have at least five senior officials, there would be a two-to-one ratio per official to the minister.

The minister is accountable in the Legislature every day, and in no government more than this one in recent memory has the Legislative Assembly sat and had a question period every day, certainly 500%, 600%, 700%, 800% more than the previous year of the former government. He's accountable there.

This committee's mandate on this issue is on pre-budget consultations. There is a standing committee on public accounts and a standing committee on estimates, which are the two chief opportunities on a specific basis to hold the government accountable for the finances, which is important. I believe both of those are chaired by opposition members to reflect the independence of the role of those committees, so that's the chief place where they take accountability in terms of the minister and finances. As well, the minister is accountable in statements he makes in the House and the rebuttals and of course in debate.

One thing I'd say on travel — and I do appreciate the member for Essex South's comments on travel. I, like him, don't come from the greater Toronto area and travel a great deal of time to get here. I look around the table and I think the vast majority of the members of the committee are from outside Metropolitan Toronto. I would think it might be a good opportunity for us to avail ourselves of new communications technologies, potentially with videoconferencing, as has been done in a few other committees. They are equipped here at the Legislative Assembly to accommodate those types of conferences. The experiences to date, having spoken to previous Chairs, have been quite good and it affords people to come who perhaps wouldn't.

I don't think there's been a committee that has travelled to Manitouwadge, but there would be the potential for people in smaller communities like that where we perhaps wouldn't go. We travel to Ottawa and the folks from Kingston or Belleville would have to drive two hours to Ottawa, and it's two hours to Toronto. For large parts of the province, Queen's Park is accountable, but for those that it's not, the option of videoconferencing is one that I'm happy to work with my colleagues on all sides of the House to explore.

Mr Pouliot: On the subject matter of travelling, the case is well made. Again, we're looking at a matter of extreme importance, above, exceeding, surpassing $50 billion on an annual basis. These are the affairs of the state, all of it. Four million people, approximately, in the GTA, out of 11 million people. Suffice it that we will spend four days in Toronto for the mecca where people congregate. Parliament is here, but nevertheless for seven million people.

The only reason I would be cautious about travelling is on account of security. Given what I have read in the media and what I've listened to and what I have seen with my eyes, you're right; I wouldn't wish to go around and wear a badge that I am a card-carrying member of the government, of the Conservative Party.

1020

Let's be blunt. If you don't wish to travel because you are concerned about your personal safety, I can understand that and I perhaps would acquiesce. But let's be honest about it. In my case, there is no — I won't always be with you but I promise I will show at meetings. We won't court before or after, for security reasons of course.

But if you're not concerned about security, you owe it to the people to travel. Your Honour, with respect, it makes immense sense that the people outside of Toronto be given a chance to appear in front of the committee. There is a Thunder Bay, there is an Ottawa, southeastern, southwestern, central Ontario. I don't think it's too demanding. I think it is commonsensical. Seven million people reside outside of Toronto. When it's time to pay the freight, we go and we're very good at it. Mr Brown and Mr Baird are videoconferencing. Really, it's nice to see people in the flesh, to interface and to listen and watch what they do. Videoconferencing? Will you please give it a break? Why don't we videoconference for the people of Toronto? Of course not, because people in Toronto need to appear in front of the committee.

Again, I will be insistent. Why don't we go? Give me a reason why the committee on pre-budget consultation would not go outside of Toronto, where seven million other Ontarians reside, the majority almost two to one? If someone can explain that to me and make the case, I'm listening very carefully. I'd like to agree with you. I'm in favour of travelling.

Mr Crozier: I don't quite share the argument of my colleague from the New Democratic Party about security. That hadn't occurred to me and I don't think in the province of Ontario we have to be that concerned. Maybe the government is, I'm not sure.

Once again, I say, Mr Baird, that unless there's a compelling reason why we can't travel, I still think it's good to take the government to the people. There's no ministry that — well, no, there are other ministries that maybe garner a little more attention in the areas of health and education and I can understand why the government wouldn't want to travel around the province and face the people on those two issues, but certainly in the financial area they should be given the opportunity. The fact that the committee hasn't travelled before, I'm not even sure of that, whether it's never travelled before or not.

On the question of technology, I suspect we're going to lose this argument on this side of the table. Are you then raising the issue today that you will work to set up some teleconferencing for those sessions outside of Toronto? Are you laying that on the table as an offer, as opposed to travel?

Mr Baird: I'm certainly happy to work with the subcommittee to see if there's an opportunity to use some videoconferencing during the hearings.

Mr Crozier: I think it's a poor substitute. In any event, I think we've put our argument forward and we'll let it go at that.

The Chair: Any other comments? Are you ready for the question? Mr Baird has moved the subcommittee report, with the following amendments: Under number 1, that the minister be allotted one hour and that an additional two hours be allotted for the ministry staff; also amending it by excluding that portion at the bottom of page 1 and at the top of page 2, under the heading "If the committee travels."

Are you ready for the question?

Mr Crozier: Recorded vote, please.

The Chair: Shall the amendment carry?

Ayes

Baird, Jim Brown, Rollins, Wettlaufer.

Nays

Crozier, Pouliot.

The Chair: The amendment carries. Shall the report, as amended, carry?

Interjection.

The Chair: Recorded vote. All those in favour?

Ayes

Baird, Jim Brown, Rollins, Wettlaufer.

Nays

Crozier, Pouliot.

The Chair: That being the only item on the agenda this morning, I have a motion to adjourn moved by Mr Baird. Carried? Thank you, gentlemen.

The committee adjourned at 1025.

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Clerk / Greffière
Ms Rosemarie Singh

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ISSN 1180-4386

Legislative Assembly
of Ontario

First Session, 36th Parliament

Assemblée législative
de l'Ontario

Première session, 36e législature

Official Report of Debates (Hansard)

Monday 15 December 1997

Journal des débats (Hansard)

Lundi 15 décembre 1997

Standing committee on finance and economic affairs

Comité permanent des finances et des affaires économiques

Tax Credits to Create
Jobs Act, 1997

Loi de 1997
accordant des crédits d'impôt
pour créer des emplois

Chair: Garry J. Guzzo
Clerk: Rosemarie Singh

Président : Garry J. Guzzo
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Published by the Legislative Assembly of Ontario

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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Monday 15 December 1997

Lundi 15 décembre 1997

The committee met at 1902 in room 228.

TAX CREDITS TO CREATE JOBS ACT, 1997

LOI DE 1997 ACCORDANT DES CRÉDITS D'IMPÔT POUR CRÉER DES EMPLOIS

Bill 164, An Act to implement job creation measures and other measures contained in the 1997 budget and to make other amendments to statutes administered by the Ministry of Finance or relating to taxation matters / Projet de loi 164, Loi visant à mettre en oeuvre des mesures de création d'emplois et d'autres mesures mentionnées dans le budget de 1997 et à apporter d'autres modifications à des lois dont l'application relève du ministère des Finances ou qui traitent de questions fiscales.

The Chair (Mr Garry Guzzo): Could we come to order. Are you ready to proceed? Prepared to deal with the first section? Shall section 1 carry? Carried.

Shall section 2 carry? Carried.

Shall section 3 carry? Carried.

Mr Gilles Pouliot (Lake Nipigon): On a point of order, Mr Chair: By way of courtesy, would the clerk extend the privilege of a spare copy of the bill? This is voluminous indeed. Do you intend to go clause by clause or is it your intent to expedite and to use whichever possible majority muscle you have in terms of pushing this thing through in what you would term, with respect, is a reasonable time? I was surprised for us to be departing from form, that all three parties were not asked to issue some preliminary comments vis-à-vis Bill 164 dealing with the intent, the spirit addressing the compendium and also the feeling of their respective positions on the bill, Mr Chairman, and I would have appreciated the time, the courtesy of course to do that on behalf of our party. I'm a little shell-shocked that the government used some tricks to get us here. We have to reciprocate, and I say this on behalf of the democratic process and on behalf of the New Democratic Party.

The Chair: Mr Pouliot, let me just say that your wish is my command, and if you'd like to make some preliminary remarks, I would be happy —

Mr Pouliot: I was going to broadly summarize —

The Chair: What I was going to say is I would be happy to allow you to do so at any time. I have carried section 3 and was about to move to the schedules. If you'd like to make them in reference to section 3 —

Mr Pouliot: I quote from the title of the bill, An Act to implement job creation measures and other measures contained in the 1997 budget and to make other amendments to statutes administered by the —

Mr John R. Baird (Nepean): On a point of order, Mr Chair: I just would like to request your considered judgement on a point. The order of the House setting this bill, the way we're operating — are we to proceed to votes or did it permit —

The Chair: Without debate, but in terms of the member's request for some preliminary comments, I feel compelled to allow a short introductory, notwithstanding we've voted on three sections.

Mr Dwight Duncan (Windsor-Walkerville): The official opposition would like that privilege as well.

The Chair: I would suggest three minutes per party. Very well. Proceed.

Mr Pouliot: Thank you for the courtesy and I thank the government member.

What is striking about Bill 164 is the method. This is an afterthought. Sure, our party will be fully supportive of any measure that will give the business community, especially the small business community, some encouragement by way of incentives, but what we see when we open Bill 164 — well, it reminds me of Bre-X Gold. It looks very good on the outside, but once you scratch the surface you find out it tells quite a different story.

This is filled with amendments. These are errors, sins of omission. The government screwed up and now, in a desperate attempt to meet the deadline, the government comes back and asks the good people at finance to draft a bill. This smacks of incompetence. Some of those bills already had 40 amendments. They can shove them, they can bulldoze them all the time at the committee level. Somebody got a brainwave and they said, "We'll do it the omnibus way, and in order to coat it we will put in a very thin veneer of some incentives for the business community. When you open the package, you get all the amendments after."

I think this is a sinister plot. This is something that should be denounced. This is so veiled as an attempt, the transparency is real. I'm really disappointed in the competence of the government. This is, above all, what disappoints me the most. Those people pride themselves on being able to conduct good business, and yet I would

have expected a lot more than I have here. I just voice, by way of conclusion, my great, great disappointment, and I thank you for giving me the time to share my sorrow with you.

Mr Duncan: Just briefly, I think it's somewhat appropriate that we're doing this today, given everything that's gone on with the downloading. This bill, in the view of the official opposition, continues the government's tradition of introducing comprehensive, omnibus legislation in the last days of a sitting and then ramming it through without any meaningful debate.

It's disguised in a couple of ways, not just in terms of the sugar coating that goes to some of the referenced things like the child care tax credit and some of the other things, but it's also disguised in the sense that it was originally advertised as being a technical budget bill when in fact there are a number of important political initiatives that are hidden at the end which are important to the government's property tax reforms and downloading agenda.

I'll remind you of what the Association of Municipal Clerks and Treasurers of Ontario said in their presentation to this committee about Bill 164: "The cumulative effect of Bills 106, 149, 160 and now Bill 164 is that we no longer have a municipal property tax system. We have a provincial tax system administered by municipalities. The province controls the education tax. It determines classes and subclasses of land. It allocates tax ratios and transition ratios and it now may determine what will go on in the tax notes."

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What's further troubling about that, coupled with the close to $600 million in additional property taxes that will be paid by all Ontario taxpayers as a result of this initiative in places like Kitchener, Niagara Falls, Ottawa and Wellington county, what's particularly troubling about it is that what you've done as well is taken out representation on taxes. The government, by regulation, will set the so-called education tax rate. One would have thought — and perhaps we shouldn't be surprised. Perhaps we should have expected that given the way they've dealt with this and other pieces of legislation.

This bill is in fact a substantive piece of political work that goes well beyond the sugar coating we see on the outside and represents yet another attempt by the government to take some pretty difficult political issues, such as, as was pointed out to us, the effect that this and four other pieces of legislation have had on the property tax system, and make them into law without any meaningful debate.

We submit that this bill ought to be defeated. You can do the good-news stuff coming out of the budget separately. Let's deal with the problems of higher property taxes which you've created in a different forum with a different piece of legislation. The official opposition believes this bill in its entirety is not in the best interests of the province and certainly not in the interests of property taxpayers in every corner in the province.

Mr Baird: The bill before us deals substantially with a lot of measures arising out of the Minister of Finance's budget of May of this year, a whole host of tax credits designed to create jobs in three most important areas: to assist small business, which is the economic engine of this province, where we've seen a good number of the jobs created; to support research and development in the high-technology community, where we've seen a substantial amount of our economic growth in recent years, and a substantial amount of the good news we've heard this year has been in the high-tech industries, and these tax credits hope to build on those successes; and finally a number of measures designed for youth employment, which is a substantial concern of all parties and of folks from all walks of life across the province.

It also deals with setting up the property assessment corporation, which is not a new or revolutionary idea. It's one that has at various times been supported by all three political parties. The Liberals of the day, the then member for Essex South, Mr Mancini, presented a much similar bill, Bill 156; followed up by the NDP in a policy paper they put out calling for much the same efforts. It's hardly a revolutionary idea; it's one that has had a substantial amount of public support across different parties and affiliations.

The Chair: Having heard the preliminary comments, we have carried sections 1, 2 and 3. I'll move to the schedules.

Mr Duncan: On a point of order, Mr Chair: Just before we proceed, what is your interpretation of what we can do tonight? Are we allowed to have any discussion at all on any of these sections?

The Chair: The document that I read suggested that I "put every question necessary to dispose of this stage of the bill without further debate or amendment."

Mr Pouliot: Point of order.

The Chair: I'd like to deal with Mr Duncan. Mr Duncan, did I answer your question?

Mr Duncan: So really we just have to vote? We can't say anything about these sections and we can't propose any amendments?

The Chair: That's my interpretation of what the document says.

Mr Pouliot: On the same point: I will not prolong this. I have no intention of reciting the memoirs of Pinochet or a day in the lives of Franco and Salazar, but I understand that when you have a committee it is our duty to debate, to scrutinize, to reinforce, to suggest, to amend. This is what parliamentarians do, is it not? Or if we are here as mere victims, that the gag order, the shackles, the handcuffs will supersede our democratic right, if I may be so bold, then what the heck is the need for the committee to convene if we don't have the right to debate?

Some of the backbenchers have been gagged. Others went for the feedbag. I can understand that, but that's their lot, that's their choice. I'm here to debate, and I suppose the official opposition is as well, each and every part of this bill to strengthen the bill. But now I'm at your mercy if I can't say a word. If with those people I say little or

nothing at all, then my rights as a parliamentarian have been taken away from me; it's as simple as that. I'm really appalled and shocked, but I know that by unanimous consent you could have a good healthy debate — it need not be long — on Bill 164. Take the time that it takes. The people will be thankful that we didn't act in haste.

Mr Duncan: Just reviewing the resolution, the way I interpreted the resolution was that the questions necessary would be put at 9 o'clock, not at 7 o'clock, and therefore the resolution doesn't really address what we can do between 7 and 9 o'clock.

The Chair: Your motion is to adjourn till 9 o'clock and then we'll put the question?

Mr Duncan: No. I'm not making a motion; I'm posing a question to the Chair. It says we're authorized to meet at 7 o'clock today for the purpose of considering the bill, and then the next sentence reads, "That, at such time," which I presume to be 9 o'clock — we're scheduled from 7 till 9, is that correct?

The Chair: Not to my knowledge. I don't know that we're scheduled any limitation. We can stay until 9 tomorrow morning.

Mr Duncan: Do we vote on each individual section or how do we conduct the voting?

Mr Pouliot: Can we ask that each section be read?

Mr Duncan: I think each section should be read.

The Chair: I have interpreted "That, at such time, the Chair shall put every question" — "such time" refers to the 7 o'clock in the paragraph preceding — "necessary to dispose of this stage of the bill without further debate or amendment." That's what I started to do, but I think I had unanimous consent to allow preliminary comments that were very, very helpful, I must say, but I now propose to call the sections, which I have, and proceed to the schedules.

Mr Pouliot: On a last point of order, if I may, Mr Chair: With respect, I don't always express myself, articulate what I mean, so please bear with me briefly. The three minutes that we were given, this was not supposed to be the proverbial last word. We weren't going to the guillotine. This was opening statements. Now I find myself in the inopportune position of asking you for a stay of execution. Now we're saying that all you're going to do is just bulldoze the 200 pages and we don't even have a say to question, we can't propose anything. Mobutu — I take that back. This is the way things operate and that's it — head in the basket, we're being guillotined. Do you think that's fair? I've been here 13 years and I'm really appalled and shocked. I know they would not and I know we would not have acted this way, for both opposition parties are true democrats.

I'm insisting that we debate this with the will of the people out there while there is still a chance for them to have a say through people like us. Is that asking for too much?

The Chair: Definitely not. I definitely agree with you, but I am bound by the majority of the House. As a matter of fact, there was no vote, and I think the reason there was no vote was that one party walked out and the other party didn't have enough people to force a vote on that resolution.

The dictate of the House — and the House is supreme regardless of which party forms the government — suggests that I call them item by item "at such time," referring to 7 pm. Having said that, I propose to call the schedules immediately following section 3.

Mr Duncan: On a point of order, Mr Chair: Could we have each section read into the record please?

The Chair: With unanimous consent, by all means.

Mr Duncan: Why?

The Chair: Do we have unanimous consent to read each?

Mr Duncan: Can I pose a question to the Chair and to the clerk? Do the rules require unanimous consent to have them read into the record?

The Chair: Yes, I believe it would require unanimous consent. There's no requirement for the committee to do it.

Mr Duncan: Is that the clerk's position on this?

The Chair: One moment. I'll ask.

Mr Duncan: I asked the clerk and the Chair.

The Chair: The clerk has no ruling on it.

Mr Pouliot: May I move that we adjourn until tomorrow to clarify this matter?

The Chair: Moved by Mr Pouliot that we adjourn until tomorrow. At what time?

Mr Bart Maves (Niagara Falls): You can't do that anyway, Mr Chair.

Mr Baird: I would bet, Mr Chair, that motion would be out of order, given that the mission sent to us by the Legislative Assembly is quite clear to deal with this issue at 7 o'clock.

The Chair: It does appear to be in conflict with the direction of the House, which we all agreed was supreme.

Mr Wayne Wettlaufer (Kitchener): I don't think there is any necessity to read the sections of the bill. The members have all had ample opportunity to read the bill in its entirety, and I believe that the members here know what the bill contains and that it would be totally irrelevant.

Mr Duncan: I move that we adjourn until 9 o'clock tomorrow morning for purposes of getting clarification on the rules with respect to reading the clauses into the record.

The Chair: Mr Duncan, I have indicated that in light of the direction of the resolution that the House has passed, the motion to adjourn is out of order.

Mr Duncan: The resolution of the House says nothing about motions in it at all.

The Chair: No, but it provides a direction that "the Chair shall put every question necessary to dispose of this stage of the bill without further debate or amendment."

Mr Duncan: I submit that the motion I put is directly relevant to that and therefore ought to be considered by the committee.

Interjection: It's out of order.

Mr Duncan: How can it be out of order? The resolution doesn't say anything about motions.

The Chair: I have ruled that it's out of order. Do you wish to challenge the Chair? Thank you. What is your wish? Anything further? I'll proceed to call the vote on schedule A.

Shall schedule A carry? Carried.

Mr Pouliot: Mr Chair, I would ask for a recorded vote on each and every item and that the names be read into the record, please.

The Chair: Recorded vote on schedule A.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Crozier, Duncan, Pouliot.

The Chair: Schedule A is carried.

Shall Schedule B carry?

Mr Bruce Crozier (Essex South): On a point of order, Mr Chair: According to standing order 127(a), I would request a wait of up to 20 minutes before this vote is recorded.

Mr Ted Arnott (Wellington): Mr Chair, speaking to that point of order: I believe we were in the midst of a vote and it would be inappropriate for us to call for a recess.

The Chair: I put the question with regard to schedule B and we had been asked for a recorded vote. The recorded vote had not been taken. I think the motion for the 20-minute adjournment is in order at this point in time. Is it 20 minutes specifically you are requesting?

Mr Crozier: Yes, 20 minutes.

The Chair: The committee will resume at 7:45.

The committee recessed from 1925 to 1942.

The Chair: Gentlemen, can we come to order. I call the vote on schedule B. Shall schedule B carry? Recorded vote?

Mr Duncan: Yes.

Ayes

Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan, Pouliot.

The Chair: Carried.

Shall schedule C carry?

Mr Duncan: On a point of order, Chair: Under the same section of the standing orders as was cited in the last case, we request a 20-minute recess to discuss our vote.

Mr Baird: Labour-sponsored venture capital and you need to discuss the vote?

Mr Duncan: Yes.

The Chair: Until 8:05.

The committee recessed from 1943 to 2003.

The Chair: Come to order. Ready for the question? Shall schedule C carry?

Mr Duncan: A recorded vote.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan, Pouliot.

The Chair: Carried.

Mr Baird: I would move that we group schedules C to G inclusive, given that there are no amendments.

The Chair: There are no amendments, you're correct, because of the House dictate. But I believe in order to do that we need unanimous consent. Do we have unanimous consent? Agreed? No unanimous consent. Shall schedule D carry?

Mr Duncan: On a point of order, Mr Chair: I request a 20-minute recess to review this in our caucus as per the standing order cited earlier.

The Chair: Until 8:25.

The committee recessed from 2005 to 2022.

The Chair: Can we come to order, please.

Shall schedule D carry?

Mr Duncan: A recorded vote.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan, Pouliot.

The Chair: Schedule D carries.

Shall schedule E carry?

Mr Duncan: Mr Chair, on a point of order: We request 20 minutes as per the section in the standing orders for our caucus to consider this section of the bill.

The Chair: Until 8:45.

Mr Arnott: Mr Chairman, on that point of order: Is the Liberal caucus actually meeting to discuss this issue?

Mr Duncan: Yes, absolutely.

The House recessed from 2023 to 2042.

The Chair: Are we ready for the question? Shall schedule E carry?

Ayes

Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan.

The Chair: Carried.

Mr Maves: On a point of order, Chair: As there are no amendments in the rest of the schedules, could we get unanimous consent to move them all in one motion at this point?

The Chair: Unanimous consent? No.

Shall schedule F carry?

Mr Duncan: On a point of order, Mr Chair: I request 20 minutes as per the standing order that we cited earlier to review this schedule with my caucus colleagues.

Mr Baird: On a point of order, Mr Chair: We only have one of the three opposition members here. Are we required to have a majority of opposition members here? Because the other Liberal members and the NDP member are not here any longer.

The Chair: I don't believe so. Until 9:05.

The House recessed from 2044 to 2101.

The Chair: Shall schedule F carry?

Mr Duncan: A recorded vote.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan.

The Chair: Schedule F carries.

Shall schedule G carry?

Mr Baird: On a point of order, Mr Chair: I'd like to ask for a five-minute recess.

The Chair: Back at 9:10.

Mr Duncan: On a point of order, Mr Chair: Pursuant to the positions recited earlier in the standing orders, we request 20 minutes. We can wait until the five minutes are up if you like, but we request 20 minutes to caucus this schedule.

Mr Baird: I think mine precedes his.

The Chair: It's a five-minute recess. We'll be back at 9:10.

The committee recessed from 2103 to 2108.

The Chair: Come to order.

Mr Duncan: Point of order.

The Chair: I can't take a point of order now.

Mr Duncan: My understanding was that the question had been put and that's why you recognized the member for Nepean.

The Chair: That's correct.

Mr Duncan: Point of order: I request a further 15-minute delay under section 127(a) of the standing orders in committees for further consideration of this schedule of the bill.

The Chair: I can't consider a second after I've granted one.

Mr Duncan: Point of order.

The Chair: I'm sorry. Under the edict of the House, I must call the vote —

Mr Duncan: I challenge the Chair.

The Chair: The Chair has been challenged. Shall the Chair be sustained? All those in favour?

Mr Duncan: Recorded vote.

The Chair: I must call the vote first of all on schedule G. Shall schedule G carry? All those in favour?

Mr Duncan: Recorded vote.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan.

The Chair: Schedule G carries.

The Chair is challenged. The question is, shall this Chair be sustained? Do you want a recorded vote?

Mr Duncan: Yes.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan.

The Chair: The Chair is sustained.

Shall the title carry?

Mr Duncan: Recorded vote.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan.

The Chair: The title carries.

Shall the bill carry?

Mr Duncan: Recorded vote.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan.

The Chair: The bill carries.

Shall I report the bill to the House?

Mr Duncan: Recorded vote.

Ayes

Arnott, Baird, Maves, Rollins, Wettlaufer.

Nays

Duncan.

The Chair: Report the bill to the House.

The committee adjourned at 2111.

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ISSN 1180-4386

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Published by the Legislative Assembly of Ontario

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Toronto ON M7A 1A2
Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 10 February 1998

Mardi 10 février 1998

The committee met at 1006 in room 151.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Garry Guzzo): Come to order, please. Ladies and gentlemen, thank you and welcome. When we last met the subcommittee arranged that we would commence these proceedings on the second day of February, a week ago yesterday. Thank you for being here today, and I apologize for what it's done for your travel plans for the week following next. We will sit until Friday at 5 o'clock with some variations in Thursday's agenda, retiring early on Thursday. We're back on Monday morning and sit until the following Thursday, a week from this Thursday. I know that's not the agenda that was agreed to but that's the agenda we received, and I gather the House leaders have made those changes.

We'll commence today with the minister's statement. I'll call upon Mr Eves. Thank you, sir.

MINISTER OF FINANCE

Hon Ernie L. Eves (Deputy Premier, Minister of Finance): Thank you, Mr Chair. It's a pleasure to be here this morning for the beginning of your pre-budget consultations. Today I'll provide updates on the province's third quarter economic accounts and third quarter finances. These updates provide proof positive that the government's plan for Ontario is working.

In Ontario today, tax cuts are building consumer confidence and economic momentum, resulting in increased private sector growth. This is all occurring as we continue to control provincial spending. This year's deficit outlook is $5.162 billion. Ten years ago a deficit of $5 billion would have been unthinkable, and it should be unthinkable today. This is why in the fiscal year 2000-01, just over two years from now, this government will bring the deficit to zero as it promised.

Though we should all take pride in the achievements that have been made to date, there is a mountain of debt that we have not yet addressed. In fiscal 2000-01, the province will be paying about $10 billion in annual interest costs to service the debt, even though the deficit will have been eliminated. These debt costs will need to be brought down and the best way to do this is by continuing to strengthen the economy, improving the environment for jobs and growth and continuing to control spending.

Building a better, more prosperous tomorrow is what we've been doing for the last two and a half years and we are already seeing the results that come from lower taxes, less red tape, fewer barriers to growth and a lower deficit.

Ontario's economy has turned the corner and is growing strongly. This government's economic and fiscal policies are contributing to renewed business and consumer confidence. While the entire country is benefiting from an improved economic climate, Ontario's economy is growing faster than the rest of Canada and faster than any of the G-7 countries. We estimate that Ontario's real economic output rose by 4.4% in 1997, up from 3.2% projected in the 1997 budget. All private sector forecasters expect Ontario to continue growing faster than the Canadian average in 1998. The Bank of Montreal says, "Ontario's economy became red hot in 1997 and is likely to remain so through 1998, growing at a 5% pace in both years."

The Ontario Economic Accounts for the third quarter of 1997, which were released today, show that Ontario real GDP grew at a 5.7% annual pace, faster than the national growth rate of 4.1% for the same period. Consumer spending and business investment were the leading sources of growth in the third quarter and have fortified consumer confidence. Improving job prospects, continuing deregulation and progress towards a balanced budget have boosted consumer confidence; in fact, Ontario's consumer confidence has risen now for eight consecutive quarters to its highest level in nine years.

Today Ontario is cited, along with Alberta, as the province most likely to lead in overall growth in 1998. As well, 55.7% of respondents to a Conference Board of Canada survey completed in the fourth quarter of 1997 identified Ontario as the province in which they intend to invest money.

A recent Royal Bank-Angus Reid study shows that Ontario small business owners are the most optimistic in Canada about the prospects for the Canadian economy, with 56% expecting improved business conditions in 1998. Tax cuts, increasing consumer confidence and stronger household and business demand have, in turn, fuelled vibrant private sector job creation.

In the last two budgets, our government cut taxes a total of 30 times. The impact of tax cuts on the economy is crystal clear — tax cuts create jobs. The Help Wanted index is the highest it has been in a decade. A quarter

million people have come off the welfare rolls since the government assumed office.

Public optimism and confidence in the economy have rebounded. Average annual private sector employment rose by 130,000 jobs in 1997. In January 1998 Ontario private sector employment rose by 35,000 jobs, following a 9,000 job gain in December. Since June 1995, 311,000 new private sector jobs have been created.

Youth are benefiting from Ontario's strong economic and employment growth. The overall employment trend in the past year has been positive for youth. However, there are still too many young people unemployed and underemployed. To help remedy this, Ontario has allocated over $180 million for labour market programs to assist 141,000 youth this year, 49,000 more youth than were helped last year.

More people working means more people spending. Tax cuts not only increase the economy's capacity to produce goods and services; they also help stimulate the demand for those goods and services. Ontario auto sales alone were up 17% over the first 11 months of 1997, on their way to the strongest gain in 12 years. For example, last November Ontarians bought 45,612 cars and trucks, 5,000 more than November 1996. Over the first 11 months of 1997 Ontario retail sales increased 6.8% from the same period a year earlier, on pace to register the strongest performance in nearly a decade. Department store sales in Ontario were up 11.4% during the first 11 months of 1997, the strongest gain on record.

The housing market in particular is benefiting from strong consumer confidence and job growth. In 1997 housing starts in Ontario were up over 25% from a year earlier. This represents the highest level since 1992. In January Ontario urban area housing starts rose 2.2% to reach an annualized level of 51,600, following a 4.8% rise in December.

The Canadian Mortgage and Housing Corp feels that the strong housing market performance in Ontario will continue, stating:

"Ontario's economy has shifted gears from job recovery mode to job growth.... Jobs are a key ingredient in boosting housing demand, but combine jobs with affordable mortgage carrying costs, strength in home resales and moderate inventories of newly completed and unoccupied homes, and they suggest that housing starts should grow further."

In addition to strong domestic demand, growth in manufacturing exports is contributing in a big way to the strength in Ontario's economy. Ontario has become a global competitor and will continue to claim its share of an expanding world market. Ontario's export orientation has increased sharply, rising from 28.5% of GDP in 1989 to 45.6% of GDP in 1996, higher than any of the G-7 countries.

Ontario's increased export orientation reflects the province's highly competitive position and is contributing to the province's strong growth. Real Ontario exports increased by an average of 7.5% between 1995 and 1997, and are expected to grow at an average rate of 5.8% over the next two years.

Improvements in confidence and in the province's cost competitiveness have been key factors in Ontario's trade performance improvement in recent years. These improvements in Ontario's economic prospects are also reflected in the provincial balance sheet.

Ontario is on track to meet the balanced budget deficit targets originally outlined in the November 1995 Fiscal and Economic Statement. In fact, for a third straight year Ontario is on track to overachieve its deficit target.

In 1995-96, the province overachieved its deficit target by $508 million. Last year, we overachieved the deficit target by $1.275 billion. The 1997-98 third quarter deficit outlook, at $5.162 billion, is $1.418 billion lower than the 1997 budget forecast of $6.580 billion, and some $430 million below the level reported in the second quarter Ontario Finances. This year's deficit will be $1.7 billion less than the deficit in 1996-97 and is more than 50%, or $6.1 billion, below the $11.3 billion deficit that the government inherited when it assumed office.

Strong economic growth and lower taxes, less red tape and fewer barriers to growth have already resulted in the province achieving a surplus in the operating balance last year. The operating balance is the difference between total government revenue and total spending on all programs, not including public debt interest. It is also a statistic, I might add, that the federal government points to with some pride as having achieved.

Achieving a surplus in the operating balance is an important milestone. It means that the province no longer needs to borrow money to pay for ongoing programs. The surplus in Ontario's operating balance will grow from $1.7 billion in 1996-97 to $3.9 billion in 1997-98.

While this achievement is cause for some optimism, let me reiterate that our intention is to balance the overall budget and then to begin to reduce the debt.

As I mentioned earlier, the Ontario deficit, at $5.2 billion this year, as reported in the third quarter Ontario Finances released today, is $1.4 billion below the $6.6 billion deficit target we set out in the 1997 budget, and some $430 million below the $5.6 billion reported in the second quarter finances of the province.

Revenues have increased by some $2.4 billion since the 1997 budget and some $525 million since the second quarter outlook, primarily due to $2.1 billion in higher personal income tax and other tax revenue and $564 million reimbursement of expenses related to local services realignment.

Higher-than-forecast tax revenue is due to the strength of the economy and the cautious nature of budget projections. At the same time, expenses have increased by $1.7 billion since the budget and $95 million since the second quarter outlook.

This is primarily due to a $577-million increase in transitional expenses related to local services realignment and a $900-million increase in the provision for restructuring and other charges to ensure that sufficient funding is

available to support the significant restructuring taking place in the province.

Improvements in the deficit are important steps to slowing the growth of debt. We are all looking forward to the day when we can begin to pay down the debt.

Ontario's debt-to-GDP ratio was stable — between 15% and 18% — for the two decades before the 1990s. Then in the five-year period between 1990 and 1995, the debt-to-GDP ratio doubled and debt grew from $39 billion to $89 billion.

Our debt stands now at over 31% of GDP. This makes us vulnerable in the event of future economic shocks and it means that an unacceptably high share of our spending goes to paying interest on the debt.

Given that Ontario's debt is about $9,400 for each and every person in the province, prudent debt management is vital to the government's overall deficit and debt reduction. Unless the province continues to manage its finances carefully, Ontarians will never rid themselves of the burden of excessive debt. The debt will continue to threaten Ontarians' security and prosperity and the priority services that we all value and rely on. The government is committed to bringing Ontario's debt ratio back to its historical norm in a reasonable number of years.

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The recent ice storms in eastern Ontario illustrate the need for prudent fiscal planning and for ensuring sufficient fiscal flexibility in order to accommodate unforeseen events. Our prudent and cautious approach has allowed this government to respond quickly, decisively and compassionately to the needs of those affected by the recent ice storms in eastern Ontario. In total, the province has committed $75 million to help individuals and communities in eastern Ontario deal with their immediate financial concerns.

As announced by my colleague the Honourable Al Leach, Minister of Municipal Affairs and Housing, on February 2 of this year, the province is providing funding at a ratio of up to four provincial dollars for each dollar raised through local fund-raising efforts. This commitment exceeds the normal ratio under the Ontario disaster relief assistance program of one to one in recognition of the extraordinary nature of this disaster, and it ensures that people who need help with uninsured private property damage will receive it.

The government recognizes that farming communities have been especially hard hit. We have therefore committed an initial $10 million to assist farming communities to recover from this disaster. While we realize that the extent of the damage experienced by farmers can never be fully compensated, we hope to help to begin the recovery process by getting funds into the hands of farmers as quickly as possible.

The government is maintaining its resolve to tackle the threat of debt. While significant progress has been made, there is an ongoing need to manage expenditures. With an aging population, our health budget continues to come under pressure, with increasing demands for physician services as well as new drugs and new and improved technologies. Our education budget is also under pressure from increased enrolment growth and from ongoing improvements to curriculum. As I have already mentioned, investment in these priority programs and services is being clearly affected by growing public debt interest costs.

Balancing the budget is not the end of the task. Even after the deficit is eliminated, government must balance prudent economic and fiscal management with the need to preserve and enhance priority services if the burden of debt is to be reduced.

I hope the information which I have provided to you this morning and the ideas and advice which interested individuals and groups will be bringing forward over the upcoming weeks will be carefully considered by the committee in its report to the Legislature. In particular, I will look forward to advice from the committee which will contribute to making Ontario the best place in North America in which to live, work and raise a family; help today's youth by providing more work and training opportunities, which will also help Ontario's labour force remain competitive in the future; and build on the gains we have made to date by further strengthening Ontario's economy so that we can compete with any jurisdiction in the world and win.

Thank you.

The Chair: Thank you, Mr Minister. Members of the committee, we have about 35 minutes for questions. We did agree, I believe, to divide them equally. That was the subcommittee's direction. We also agreed, I think, to split them at five-minute intervals until the final shakedown, and we'll divide it evenly again. Is that satisfactory? I'm prepared to start with the official opposition. Mr Phillips.

Mr Gerry Phillips (Scarborough-Agincourt): I want to begin by getting some clarification on what is now I think almost the third-largest provincial tax in the province. That is the over $6 billion that the government sets on property taxes, and particularly on business property tax.

Last week the government announced the tax rates for municipalities across the province. This is going to raise, I gather, about $3.6 billion. Based on the information that was provided to us, Minister, you can see that we have widely varying rates across the province.

For example, for a business valued at about $500,000, Hamilton will pay a tax of about $18,500 and the neighbouring community, Burlington, will pay about $11,300. A business in Orillia will pay about $14,200 and a business in neighbouring Huntsville will pay $5,000. A business in Brockville will pay $16,000 and an identical business in Parry Sound valued at exactly the same value will pay $5,000. In Toronto, a business will pay $21,600, and an identical business, exactly the same business, the same value, in neighbouring Richmond Hill will pay $11,100. So you can see that for, I gather, the same services across the province, the same opportunity across the province, businesses will see tax rates that will vary from, for this particular example, a $500,000 business, $21,600 in Toronto, $18,500 in Hamilton, $5,000 in Huntsville and $5,000 in Parry Sound.

I wonder, Minister, if you can give us the rationale for why businesses would have such widely varying rates across the province.

Hon Mr Eves: The rationale for the widely ranging rates is the rationale that's been established over many decades in this province by rates set by individual boards of education and by municipal councils. We understand that the ideal situation would be to have a uniform business tax rate, commercial and industrial tax rate, across the province of Ontario. That is the ultimate goal we will be working towards along with municipalities.

However, to try to solve this inequity in the commercial and industrial tax system across the province in one fell swoop, overnight, would mean the transfer of some $510 million, or half a billion dollars, from some taxpayers in some parts of the province where tax rates admittedly have been excessively high — primarily, of course, in the city of Toronto proper — to other areas of the province, to other municipalities across the province, to other commercial and industrial taxpayers.

I don't think you solve the problem of tax inequity by penalizing those people who have shown cost-effectiveness and managed their affairs prudently and kept their taxation rates relatively low over the years. I don't think you solve the problem of excessive taxation, admittedly, in terms of rates in the city of Toronto, and other municipalities as well, I might add — in the area of commercial tax rates, there are nine other municipalities in the province, all in northern Ontario, that are in excess of the provincial average of the 3.16 rate. But in the area of industrial taxation, roughly half the municipalities in the province are above the average rate.

The government had a choice to make, quite frankly. It could have shifted the $510 million on to those who have been responsible over many decades and managed their affairs prudently. I don't think that's too fair. Or I guess it could have eaten half a billion dollars a year and added half a billion to the provincial debt, which I don't think the government is able to do at this time.

However, in two years' time, when the budget is balanced and we're talking about budgetary surpluses, as they are indeed in Ottawa today and hopefully a couple of weeks from now, I can't think of a better place to spend the province's surplus, quite frankly, than to eliminate this tax inequity that exists. But I do want to point out that the tax inequity was not created by the provincial government. The tax inequity was created by many decades of taxation rates being different in different parts of Ontario.

Interruption.

The Chair: Order, please. Excuse me. Please sit down, sir.

Interruption.

The Chair: I'm going to ask you to sit down, if you don't mind, or be removed. Thank you.

Thank you, Minister. Mr Silipo.

Hon Mr Eves: Sorry. I hadn't quite finished my response to Mr Phillips.

The Chair: I apologize, but we are on a time constraint. I'll give you a minute to go back to it.

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Mr Phillips: I don't think that was five minutes, was it?

The Chair: Five minutes each per round.

Mr Tony Silipo (Dovercourt): Just give him six and take it from the next round.

Hon Mr Eves: Mr Phillips talks as if the province is raising all the money to pay for education in this province from commercial and industrial education taxes, and that simply is not the case. The province's education budget this year, the amount that will be spent on total education in the province this year, is in the neighbourhood of $14 billion. We proposed initially that we would take over the entire cost of education and that we would also assume the education property tax in total across the province. Municipalities did not like that idea. AMO and other municipal organizations, including the large urban municipal organization in Ontario, came to the government and said no, municipalities want to have roughly 50% of the revenue from what is now education taxes to pay for their responsibilities under the Who Does What exercise, and the provincial government will get approximately 50% of the revenue.

Mr Phillips: No, that's not what they said.

Hon Mr Eves: Yes, that is what they said, and we accepted their proposal virtually in its entirety.

Mr Phillips: They said they don't want to accept all the social housing costs. That's what they said.

Hon Mr Eves: With all due respect, Mr Phillips, I was at a meeting that had 16 to 18 municipal representatives representing every municipal organization around this province, with the Premier, Minister Johnson, Minister Leach and myself, and we accepted about 99.8% of their proposal in total. This was a big component of their proposal to us. We accepted that. That is why we are where we're at today.

Mr Phillips: This is grossly unfair.

The Chair: Excuse me, Mr Phillips. You ask a question; you get an answer. That's the way the system —

Mr Phillips: I resent the fact that —

The Chair: Please don't interrupt.

Mr Phillips: — we get one hour of the minister's time once a year.

The Chair: Yes, you've made that point; you made it very effectively.

Mr Phillips: I think it's totally unacceptable, one hour of your time a year.

The Chair: But you'll allow him to answer the question. Please continue.

Hon Mr Eves: I've concluded my answer.

The Chair: We have a couple of minutes remaining in the second round.

Mr Silipo: Minister, one of the comments I would make with respect to education, besides the impacts that Mr Phillips has just talked about, is to note that one of the things that has happened in Ontario since your government took over is that there has been a drop in spending for education of about $1 billion.

Even more noteworthy than that, it's interesting to note that when you look at the overall public expenditure, what we spend in Ontario and what we're projecting to spend in Ontario is actually lower, proportionately, as a percentage of public expenditure than even provinces like Alberta. We're going to be spending 16% of overall public expenditures, and that's five points less than a jurisdiction like Alberta is spending. You know better than I, Minister, that at the end of the day that's going to translate into cuts to programs in classroom after classroom in the system.

I want to come back to the broader picture. Education is one big piece; health care is obviously another. But I would say, Minister, that this budget of yours that's coming up is probably in some ways the most important of your budgets. I recall being here a couple of years ago when you said the impact of the tax cuts as it relates to creating jobs is going to be felt a couple of years down the line; it will be a little bit slow to get going, but that is there. I recall reading a document which I know is all too familiar to you, the Common Sense Revolution, in which you said the basic reason why you were doing everything else — the tax cuts primarily, the cuts in government expenditure and so on and so forth — was in order for you to create 725,000 jobs. That was the major direction that you set out for yourselves and for your government.

I was a little bit surprised, given that statement in the Common Sense Revolution and given what you said to this committee a couple of years ago and I think reiterated last year — that we would see the growth coming — that when you set out at the end of your presentation what you're going to be look for advice on from the committee, it took about three or four bullets before you got to dealing with the issue of work, and particularly the issue of youth unemployment.

You talked a little bit about job numbers. I'd like to get you to explain to me and to this committee: Do you believe you're going to reach the 725,000 job target? I'm surprised you didn't talk more about that, as I say, given the importance you've placed on it. How do you balance whatever job targets you're going to get against the job growth that would have been there, even if you had not implemented the tax cut, against the cost that the tax cut is causing to all of us and to citizens across this province in terms of cuts to health care, cuts to education and cuts to other services? Could you give me a clearer sense than you did in your presentation about where you stand on jobs, what you're anticipating and how you square that off against the costs that people are having to pick up as a result of the 30% tax cut?

Hon Mr Eves: You've raised several issues and I think every one of them is fairly significant in your questioning, Tony.

First of all, you talked about reduction in education spending. Last year, in the calendar year 1997, in fact some $269 million more was spent on the education system in Ontario than had been spent in 1995 when we assumed office. I will grant you that the source of the funding came from different places, ie, property tax education tax, and I will grant you that perhaps it was spent in different places, ie, higher contributions to the teachers' pension plan. But of course those are obligations that the province is committed to and has to pay and are part of teachers' reimbursement and they're part of the cost of classroom education. They're part of having teachers in the classroom.

We have made a commitment with respect to levels of both education and health care funding. As I announced last fall, we have actually provided an envelope for two years out in terms of the amount of money that will be spent in the health care system in this province, and that represents an increase. It's in excess of $18 billion a year. You will note that we ran on a campaign of not spending less than $17.4 billion a year on health care and in fact will be spending, by the time we reach the second year of that envelope, about $1 billion more a year than we committed to in 1995; not to say that there aren't still some very significant pressures, as I briefly alluded to near the end of my statement today, both on the health care system and on the education system, but we are committed to providing those very significant, I think, parts of not only Ontario but indeed Canadian society as we transfer our health care system from one of an institutionalized or bed-based system to a more community-based health care system, especially with respect to an aging population.

There is indeed a huge challenge on the government to make this transition as smooth as possible and to make sure there are more long-term-care beds and more long-term-care facilities available for an aging population. Hence we committed a substantial amount of money, over a five-year period of time, to health care restructuring in the province, some $2.7 billion I believe we committed last year.

With respect to your comments about job growth in Ontario, since June 1995 there have been 311,000 private sector jobs created in Ontario. The Conference Board of Canada, in a recent study it did, projects that number will reach some 720,000 jobs by the year 2000. You will see that is not very far from the 725,000 number in the CSR document itself.

Am I totally happy with the amount of employment that has been created? No. I don't think any government should ever be totally happy with the amount of employment that has been created. But I think, to be fair, if you look especially at the economy's performance in 1997 and the projections by any one of a number of economic forecasters for 1998, you can expect the very vibrant Ontario economy to continue and those jobs to continue to be created.

One area that concerns me, and I know it concerns the federal government in my discussions with Mr Martin, my federal counterpart, is the area of youth employment. Youth employment: Although it has been somewhat better in 1997 by about 30,000 jobs here in Ontario and far better than it has been elsewhere in Canada, I am not satisfied that enough is being done to help young people looking for employment. I think government has an obligation to help young people looking for employment. I think government has an obligation to help train those

young people, to talk to our educational institutions and provide them with a practical education so that they can seek opportunities in the areas where jobs are available and will be available in future years, especially the high-tech sector.

In the last 10 years, two out of every three jobs created in Ontario have been created in the high-tech sector, and I see no reason for that number to go down. In fact, it will probably increase. Yet we don't seem to have enough graduates coming out of our university and college system to give to high-tech companies. That's an immense challenge for government, for the educational system and for the private sector, all to combine and try to address those very important concerns, because obviously the future of the province and the country lies in our young people.

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Mr Ted Arnott (Wellington): Mr Eves, since assuming the office of Treasurer in June 1995, you have embarked on a very disciplined balanced budget plan. The people of Wellington county strongly support your efforts in this regard. They're also concerned about the next step: When we get into a surplus position, what do we do? You alluded in your comments to that future for us, and it's a positive future, I think. You indicated that you feel the ratio of debt to our GDP is at too high a level right now and that over a reasonable number of years we have to reduce it. Are you in a position today to elaborate on that with some specific targets you might have in mind for debt reduction?

Hon Mr Eves: I don't have a specific target today that the government has for debt reduction. However, I think that when you look at the federal government's discussion around the whole concept of a budgetary surplus, it generally comes down to three areas: further tax reduction, perhaps of a more specific nature, and I'll come back to that in a minute; further reduction of the overall debt, in their case of the country and in our case of the province; and increased spending for priority programs. I think all three are very relevant pressures on the Ontario economy and the Canadian economy.

In our discussions over the last few days with respect to the matter Mr Phillips raised in his initial question, the inequitable, unfair rates of tax being charged on the commercial and industrial taxpayer in Toronto — and other municipalities as well, I might add — vis-à-vis some other areas of the province, I think that is an area the province should definitely be looking at to spend its budgetary surplus on in the future, and there will be a budgetary surplus in two years' time, so we have to start planning for that day today. Not to say that we can't address some of the inequities that Mr Phillips and the mayor of Toronto and others have raised before then; I think we can.

We can sit down with the municipalities and work out a plan whereby they reduce the commercial rate on their part of commercial and industrial taxes and the province can reduce its rate on commercial and industrial education taxes on a dollar-for-dollar basis. Hence, if a municipality decides it wants to go in that direction, to whatever tune it feels it can afford or deal with in any particular year, be it as low as $5 million or $10 million a year or be it as high as $50 million or $100 million a year, the province will be there for them as partners, because we are partners in this. They've assumed 50% of the responsibility with respect to taxes that formerly were strictly education taxes; we've assumed roughly 50%. I think that's the way the problem should be approached.

I think overall debt reduction will always remain a serious concern. The province of Alberta has started to address and has addressed its debt problem. However, you also see in Alberta, quite frankly, pressures from the people of Alberta, and rightly so, for increased spending in important priority areas such as a couple of the ones Mr Silipo raised a few moments ago: health care and education. Those are very important areas, not only to Ontarians but to Canadians. It differentiates us from our good neighbours to the south and I think it's something we can be very proud of and certainly something we do not want to destroy but want to improve upon.

The Chair: The government has a couple of minutes left. Any questions?

Mr John R. Baird (Nepean): You mentioned youth unemployment in your remarks. That's of growing concern for folks, not just for young people who are looking for their first job on getting out of school, but for parents worrying about the next generation. The federal government has talked considerably in recent months about other programs and opportunities that could be taken at the federal level. I think it's safe to say that youth feel very strongly that they don't want another platitude and they don't want simply another make-work project that's short-term based. In Ontario at the provincial level what have we been doing and what can we do on that issue?

Hon Mr Eves: I think I briefly alluded to what we have been doing in the statement with respect to spending $180 million on employment services for youth this year. Is it sufficient? It certainly is not addressing every concern, there's no doubt about it, in terms of youth unemployment.

But I think it's important to remind people that we have taken some significant steps over our first two and a half years in office. We introduced the graduate transition tax credit, which supports the hiring of some 45,000 unemployed post-secondary graduates over the course of some three years. We've introduced the cooperative education tax credit for post-secondary students in co-op and leading-edge technology programs. We have enhanced the funding for summer employment for students. We are reforming the apprenticeship programs in Ontario to provide our youth with more opportunities to prepare for careers in skilled trades. We have provided in our last budget, I believe, loans of up to $7,500 to help young entrepreneurs start businesses.

I think that all those things are important measures, and obviously, taken collectively, when you look at $180 million, that's a fairly significant sum to be spending to help our youth. But I don't think our job is by any means done. I think there are more things the government can do, especially in the educational and training and apprentice-

ship sectors. I believe there are things the federal government can do, and hopefully we'll hear about some of those in the next 10 days to two weeks, whenever the federal budget finally comes out.

We, along with every one of our provincial colleagues at the finance ministers' meetings, have suggested to the federal Minister of Finance where he could create a substantial number — it's estimated up to 50,000 jobs for young people right now — by eliminating EI premiums on young people, both for the employer and for the employee. This would still leave the EI account in huge surplus in terms of billions of dollars every year, so it would not cost the federal government any money from that point of view, and it would provide a great impetus to hiring young people across the country, including Ontario.

The Chair: Thank you, Minister. Mr Phillips, the Liberal caucus?

Mr Phillips: I really find it unfortunate that we only have an hour and I made that point earlier. I don't know why the minister can't afford us, once a year, more than one hour. We get about seven minutes per caucus.

I want to return to the property tax issue. I think it's, by any stretch of the imagination, grossly unfair that a business in Brockville is going to be paying three times the rate a business in Parry Sound pays. The government has said that some municipalities do not charge their residential property taxpayers enough and their business taxpayers too much.

You moved to a uniform mill rate residentially so that no matter where you live in the province, you now pay the same educational mill rate. Why would you not, at the same time, have done the same thing with our businesses? I think there were $600 million worth of community reinvestment funds that you could have used to cushion the blow. What are we to say to a business in Brockville that is valued at an identical amount of money to a business in Parry Sound, doing exactly the same business, but is paying three times the rate of a business in Parry Sound?

Hon Mr Eves: First of all, with respect to the residential mill rate, you're quite correct, Mr Phillips. We did move to a uniform rate, as you know, for residential education tax across the province. That resulted and will result in substantial increases in mill rates in certain municipalities such as Parry Sound — in excess of 50%, I believe, in their case. So they will be paying substantially more money with respect to educational residential tax in those areas.

You are quite correct: In an ideal world we would have a uniform commercial and industrial rate as well. Mr Ritchie's panel recommended that to us, that it was the ultimate goal the province should be striving for, and it is the ultimate goal the province is striving for.

Your opinion, if I can gather your comment correctly, that we could take $510 million out of the $650 million we've set aside as a reserve in our budget every year — I guess we could do that. I guess the difference of opinion may come in whether you think the province can afford to address —

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Mr Phillips: I said the community reinvestment fund.

Hon Mr Eves: Okay, sorry. The community reinvestment fund was allocated to municipalities that generally do not have a large commercial or industrial tax base to assume a lot of the responsibilities that they're being asked to assume under the Who Does What exercise, and that is where that fund was allocated. In addition, of course, the Minister of Northern Development and Mines has a $77-million transition fund that he is spreading over two years to further assist some more remote and northern communities that have a huge disparity between the amount their responsibilities are going to cost them and the amount of tax revenue they have available to them.

I have never said that the city of Toronto's commercial and industrial tax rate should not be lower. It should be lower. But I do want everybody to understand, and I think it's only fair to point out, that this is a system that has grown over many decades. The inequity is about half a billion dollars a year, in round figures. The debate then becomes, or the discussion should be around, how soon we can eliminate that inequity not just for Toronto but for all municipalities, but I will concede that Toronto is about 80% of that $510 million, or roughly $400 million a year. How soon can we move to address that?

I think we've made a reasonable offer to the city of Toronto in particular and to all other municipalities that find themselves above the average rate of 3.16, to move on a dollar-for-dollar matching basis. I'm certainly prepared to sit down with Mayor Lastman or anybody else who wants to talk about how we get there over what number of years. In a couple of years' time I think we'll be in a better position, from the provincial revenue point of view, to address these inequities for all those municipalities, not just the city of Toronto.

The Chair: Thank you, Mr Minister. Mr Silipo, you have about three and a half minutes.

Mr Silipo: I thought I only used five minutes.

The Chair: No, certainly you went over.

Mr Silipo: It was more? Okay. Minister, I want to come back to this question of the jobs and its relation to the tax cuts. I note with some interest that if you look back to 1994 — you claim, first of all, that 311,000 jobs have been created since your government took office. We may quibble about some of those numbers, but let's, just for the sake of this exchange, grant you that number. Compare that with job growth in 1994 of 137,000 jobs. That seems to tell me that whatever is creating that growth in jobs, it certainly isn't the tax cut, because the job growth was there prior to the tax cut and it was projected to continue on a course very similar in terms of the numbers that you're looking at. I guess what I want to ask you is, are you prepared at least at this point to admit that whatever the reasons for the job growth are, it has very little, if anything, to do with the tax cut?

Hon Mr Eves: First of all, I don't think the government has ever said that every increase in the growth of the economy, that every single job created in the province of Ontario, is directly related to the reduction in the provin-

cial personal income tax. However, I will say that the approach the government has taken not only to provincial income tax reduction but elimination of the payroll tax, the employer health tax on the first $400,000 of payroll, the reduction of WCB premiums by 5% overall, the freezing of hydro rates — I think all of those actions, combined with deregulation, combined with the vibrant Canadian economy, combined with Ontario's advantage to export, as we alluded to briefly in our remarks, combined with low interest rates in the country, combined with low inflation, which I believe was 0.7%, if my memory serves me correctly, last month on an annualized basis, year to year — I think those are all in combination, where you have every government in Canada, regardless of its political stripe, taking the same approach with respect to deficit reduction, debt reduction, tax reduction and reducing the size and bureaucracy of government. Every single government, all 10 provincial governments and the federal government, taking the same approach I think has provided an economic climate, and obviously Ontario, being the heartland of Canada in terms of GDP and commercial and industrial growth, stands to benefit from all of that.

But there's a reason why the Ontario economy is growing at almost twice as fast a rate as any other province in Canada. There has to be a reason for that; otherwise, they'd all be the same. If our policies had absolutely no effect on what's going on in the Ontario economy —

Mr Silipo: In fact, Minister, though, if you look at the projections prior to your government taking office — this is the point I want to make — the growth was projected to be there, regardless of the tax cut. Your tax cut is costing the taxpayers of Ontario $20 billion in additional debt that's been added to the provincial debt. It means that revenue, as a result of that, is actually lower by $3 billion this year than it would have been if the tax cut was not implemented, and that $3 billion is being felt big time through cuts to health care and education primarily.

That's the point, Minister, that the growth would have been there. Dealing with the deficit is not a question that's just, as you said, a realm unto yourself. No one is disagreeing with the need to reduce the deficit. In fact, what I'm saying to you is, you would be in a position to bring the deficit down to zero within this year or certainly by next year, if you were not engaged in this craziness of the tax cut. When you add into the mix what that tax cut means to people, the fact that the people who are benefiting are not the 50% of income earners of the province who are in the lower 50% but it's the people in the top 4% or 5% of income earners across the province who are reaping the benefits of that, it's coming at a huge cost to our health care and education systems and it's not the main factor. In fact, it may not even be an average factor in terms of creating jobs. So what's the point?

The Chair: If you want an answer, I'm going to have to interrupt you there. You have one minute.

Hon Mr Eves: First of all, I'm certainly not aware of any projections in 1994 that projected this kind of rate of growth in the Ontario economy in the years 1996, 1997 and 1998. In fact, you will note that the province has followed the lead of the federal government in only projecting two years out. There isn't anybody alive who can accurately project growth any longer than two years out, and even then you have to be quite cautious I think and prudent in your approach to doing so, because there are so many extraneous factors that come into play.

I want to point out that every single dollar of tax reduction to Ontario citizens has remained in their pockets. It's not as if it has disappeared into a black hole somewhere. It's money that these people now have to spend every day, and I think that generates, and it's proven that it has generated, economic growth in Ontario.

As a matter of fact, since we assumed office in 1995, the total provincial revenue from all taxes has gone up by $3.3 billion, or some 9.1%. So as we've reduced provincial income tax rates by 22.4% to date, our revenue from all forms of taxation — because people spend money. The government doesn't care how it gets the money, whether it gets it in increased corporations tax, increased retail sales tax because people are purchasing goods and services. We don't care whether we get it in increased tobacco tax, increased LCBO revenues or increased provincial income tax.

And that's another interesting point. The provincial income tax revenues have gone up, despite the fact that the rate goes down. Compare that to the experience of your government in 1991-92 fiscal year, when you raised tax rates and got about $1.5 billion less revenue as a result of raising them. I know it may be a foreign concept to your provincial political party that when you actually allow people to keep more of their own money and not take their money away from them, they actually spend it, create jobs in the private sector, more employment's created, more people pay taxes and government revenues go up. That's exactly what's happened.

The Chair: Thank you, Mr Minister. Mr Rollins, you have about three minutes also.

Mr E.J. Douglas Rollins (Quinte): Mr Minister, I'd like to turn your thoughts for a second or two to our debt. I know there's a lot of borrowing going on to look after a debt over the past. Is there a lot of that money offshore or out of country compared to what it has been in the last while? Where are we borrowing the money that we need to borrow?

Hon Mr Eves: A good part of the amount of money that the province of Ontario borrows, as a matter of fact almost all of it, first of all, is always converted back into Canadian dollars. The flexibility that the government has given itself with respect to the matter of foreign currency exposure is no more than about 5%.

When we borrow, we borrow primarily in the Canadian domestic market. For example, this year I think we have borrowed $8.1 billion, or in that neighbourhood. Over 85% of the amount is in the Canadian domestic market, but the government has taken an approach where it is flexible enough to take advantage of opportunities in other jurisdictions if we see them. The Ontario Financing Authority, Mr Salerno, has done an excellent job in doing that, but I think the protection that's ultimately there is the

conversion back into Canadian currency so we're never exposed too much from the level of foreign borrowing, but more importantly, in the level of foreign currency exposure as well.

Mr Rollins: Thank you.

The Chair: I'm sorry, we don't have sufficient time, Mr Minister. Thank you very much for your attendance.

Mr Silipo: On a point of order, Mr Chair: Could I just raise something with the minister? I know it hasn't been the way in which it's been done in the past, but I wonder if the minister would at least think about the possibility of returning to this committee and spending some more time with us after we've gone through the two weeks of hearings and prior to our getting down to starting the writing of the report. I think it might be a useful exchange for us to have with the minister at that point, after we have heard from the various deputants and prior to, as I say, making our report, particularly in light of the fact that we haven't had as much time as we would have liked to get into some issues. I think then we could also build upon information that will have come to us from others. I just want to ask the minister to keep that in mind.

The Chair: It's a valid point for the subcommittee. If the subcommittee makes the request, we'll relay it to the minister and he can respond.

Mr Phillips: On a point of order, Mr Chair: We already made that request of the minister and it was he who said no, but I think —

The Chair: The answer to that question was today, one hour. The question now is, would he come back or would there be additional time after the hearings?

Mr Phillips: Surely the minister can answer that, Chairman.

The Chair: I'm sure he can.

Mr Phillips: Why don't you let him answer it then?

The Chair: If he wishes to make a comment, he'll feel free to do so.

It's not a point of order, but if you want to make a comment, Mr Minister, please feel free.

Hon Mr Eves: I would say to my critics, from both the Liberal Party and the NDP, they know what the tradition has been around this place, be it Robert Nixon, Floyd Laughren, myself or others. The Minister of Finance normally comes here to kick off the pre-budgetary considerations. In fact, that wasn't even a practice in this province until I believe about the year 1985.

We go through our own budgetary hearing process as well on a much more informal basis. We consult with literally hundreds of Ontarians as to what input they think we should have, and I can tell you quite sincerely that over the two budgets I have introduced, a lot of ideas that have come from people other than government have been incorporated into the budget.

I certainly would be happy to receive the advice of the committee. If there is time, I have no objection to coming back if it can be fit into not only my schedule but the committee's schedule and my own pre-budgetary hearing schedule, the pre-budgetary consultation process leading up to the budget.

I think everybody knows that the Legislature will probably be resuming about the middle of April with a throne speech, the House having prorogued.

Mr Silipo: We didn't know that. Thank you very much.

Hon Mr Eves: You do know that now.

Interjection: We thought it was April 23.

Hon Mr Eves: If you didn't before, you probably know that now.

Mr Baird: You found the calendar.

Mr Phillips: Between now and the middle of April, might you find an hour? Just today you set $6 billion worth of property tax rates. Nobody votes on them, no discussion; you just do it with the stroke of a pen. Surely we owe the public some opportunity to debate that.

Hon Mr Eves: Gerry, the property tax money does not come into provincial revenue. The education property tax money is collected and distributed to the school boards in the area where it's raised.

Mr Phillips: Yes, but you set the rate.

Mr Silipo: I'd like to say to the minister that he and his government have changed so many traditions, I hope he's prepared to change this one and come back to the committee.

The Chair: If it pleases the committee, in order to reorganize the room, we'll take 10 minutes at this time and we'll come back at a quarter past the hour.

The committee recessed from 1104 to 1119.

MINISTRY OF FINANCE

The Chair: Mr Gourley, you have approximately two hours, an hour and 50 minutes. We propose to hear your submissions, all of the submissions, and then divide up the time equally for questions between the three caucuses at that time, adjourning some time around 1 pm. If there are some preliminary comments you would like to make or introductions of your staff, please proceed.

Mr Michael Gourley: I'd like to introduce Mr Colin Andersen, who is the assistant deputy minister in the Ministry of Finance responsible for financial and fiscal policies; Mr Steve Dorey, who is the chief economist and assistant deputy minister in the Ministry of Finance responsible for the office of economic policy; and Mr Tony Salerno, who is the vice-chair of the Ontario Financing Authority as well as being an assistant deputy minister in the Ministry of Finance.

We have three presenters today: to focus on a fiscal presentation, to focus on the economic situation the government is facing, and Mr Salerno's presentation will focus on some of the initiatives he and his staff have undertaken to reduce the cost of the public sector borrowing activities of the province. I hope the committee will find those presentations informative and useful.

Without any further ado, I'll turn it over to Steve.

Mr Steve Dorey: I'll review the recent economic performance and the economic outlook and then pass it to my colleagues.

As the minister indicated, the economy grew very strongly in 1997 and the expectation both on our part and on the part of private forecasters is that solid growth will continue into 1998.

Our cautious forecast for economic growth in the year 1997 is 4.4%. That matches the best year in about a decade. Growth in each of the quarters through the three quarters we have for 1997 exceeded 5% in each quarter.

Today we released Ontario Economic Accounts for the third quarter of 1997. They show that the Ontario economy grew at an annual rate of 5.7%. That compares favourably with the 4.1% rate for the country as a whole. The key drivers were strong consumer spending. Consumption in real terms was up 7.9%, annual rate, in the third quarter, reflecting strong consumer confidence. Machinery and equipment investment was up by a very rapid pace of 34% in the third quarter.

You'll notice that while exports are up, imports were up more. The strength in imports really reflects the strength in domestic spending. There's a high import content in machinery and equipment investment, and there's a high import content in consumption, particularly the kinds of consumption that have been growing most strongly — durable goods such as automobiles.

On the consumer side, consumer confidence rose 3% in the fourth quarter of 1997, to the highest level in nine years. Nominal consumer spending for the third quarter was up 2.1%. Other indicators of consumer spending are also strong. Retail sales were up 6.8% through the first 11 months of 1997, department store sales were up 11.2% and unit auto sales were up a full 17% in 1997. Obviously consumer confidence is one of the factors driving consumer spending. Strong employment growth, 130,000 private sector jobs, and growth in after-tax income are also significant elements contributing to consumer confidence and consumer spending.

On the housing side, housing starts were up 25.6% in 1997, following a rise of 20.2% in 1996. The resale market activity moved ahead in 1997 by about 2%, following an increase of over 30% the previous year. One of the constraints in 1997 was simply a shortage, in some cases, of resale homes for sale.

In addition to the factors I mentioned previously, the housing market reflects strong consumer confidence, interest rates that despite recent increases are still at attractive levels, and affordability that's the best in a decade.

On the business side, real spending on plant and equipment was up 6.4% in the third quarter. That's the quarterly rate, and that matches the 30% increase at an annualized rate that you saw on the previous slide. That corresponds to business confidence, which remains near record levels. One of the things we saw also this year was a surge in non-residential spending, with spending on structures up about 10.1% on the year.

National business confidence remains at record levels and over half of the firms asked cite Ontario as the location where they plan to do the bulk of their investment.

Corporate profits obviously also have an impact on business investment performance, and corporate profits were up 26.3% in 1997.

The trade side continued to perform well. Exports rose 2.1% at a quarterly rate in the third quarter. Imports were up more than that. Again, imports are up strongly, reflecting the strength of domestic demand. Over the course of the year, final domestic demand in Ontario was up about 6%. So that has led to a large increase in imported goods, both for consumers and for business investment.

On the employment front, on a year-over-year basis, we saw in 1997 an increase in private sector employment of 130,000 net new jobs. In January alone the private sector created 35,000 net new jobs. At this point Ontario's total employment to the end of January is already 120,000 above the average for 1997, so that points to another very strong year for 1998.

Other labour market indicators also show healthy growth. The Help Wanted index was up 26% in 1997 over the first 11 months of the year. A total of 234,000 private sector jobs were created. The Ontario unemployment rate has come down and now stands at 8%. Other indicators like manpower temporary service employment surveys also indicate ongoing strong demand in the labour market.

One element that clouds the outlook to some extent is the Asian financial crisis. There are serious problems in a number of Asian economies. Those will have an impact on Japan and they will also have some impact in North America. It's important to realize that exports to east Asia only account for 2.3% of Ontario's exports. That's about 1% of our GDP. So we expect that to have little direct impact on the Ontario economy.

Nevertheless, we know the Asian developments will have some impact on US economic performance. Current estimates suggest it could be as much as a 0.5% reduction in US economic growth, and since 90% of our exports are destined for the US, that's an important factor. Offsetting that impact is the fact that the Asian problems will tend to lower inflation in the US, will tend to put off interest rate increases in that economy, and lower interest rates will then support growth in Canada.

When we look at the interest rate outlook, what this slide shows you is that expected interest rates for 1998 have risen at the short end of the curve in the past couple of months, reflecting the Bank of Canada's effort to offset the decline in the dollar. At the longer end of the curve, 10-year government bonds, you can see that in April of last year private sector forecasters expected a 6.3% 10-year government bond rate; in November it was 5.9%. The current expectation is 5.7% and the current level is in fact 5.5%. The expectation is that long-term interest rates and longer-term mortgage rates will remain at very attractive levels.

In terms of the dollar, you can see that last April the expectation among private forecasters was a dollar in 1998 that would average nearly 76 cents. Forecasters have gone back to the drawing board. The average in November was 73; the current projection is 71.5. So economists

still expect some moderate appreciation in the dollar over the course of the next year.

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We employ prudent assumptions when we go at our fiscal planning. What we've showed in this slide is how private sector forecasts have changed. When we produced our November outlook, we were projecting growth in 1998 for Canada at 3.3% and for Ontario at 3.5%. There was a margin of caution there. The private forecasts for Canada and Ontario at that point in time were 3.6% and 4.2% for Canada and Ontario respectively. You can see that since then, forecasts for both Canada and Ontario have come down marginally, three tenths and two tenths, to reflect concerns primarily about Asia.

What that points to is the need for prudent planning assumptions. We have four elements of prudence in our forecasts. We built in about a 100 basis point interest rate cushion to take account of risks that interest rates could be higher than forecasters expect. We used cautious forecasts for economic growth. You can see that currently our November projection remains about 0.5% below the private projection for economic growth in the current year. When we translate economic growth into revenue growth, we add another measure of caution in doing that translation. Finally, we provide for a $650-million reserve, which gives us a fourth element of caution in our fiscal projections.

As I said, our interest rate assumptions tend to be 1% above the private sector forecast and our reserve is equivalent to the revenue impact of about a 1.5% change in GDP or 6% of our sales tax revenues.

The minister touched on the fiscal impacts of the ice storm. Let me touch on the economic aspects. As you well know, eastern Ontario communities and businesses were hit hard by this storm. Currently, according to the Insurance Bureau of Canada, about 36,000 claims have been filed, for a total of nearly $100 million. The agricultural sector has been particularly hard hit. The Conference Board, for example, estimates that agricultural production will be hit to the tune of about $11 million. In the utilities sector, Ontario Hydro estimates it lost about 100 gigawatts of power in January. That's about eight tenths of a per cent of total power production in the province for that month, or $6 million to $8 million worth of power output. The manufacturing sector was also affected by the loss of power. Our expectation is that most of that impact will be recovered over the coming months.

As we go forward, we will see construction activity pick up as both Ontario Hydro and individuals and firms undertake rebuilding in the eastern part of the province, and that construction activity will offset some of the initial negative impact of the storm.

Mr Gourley: Mr Andersen will be presenting on the third quarter Ontario Finances.

Mr Colin Andersen: I'll be speaking to two documents. I think you have both of them. The first one is the third quarter Ontario Finances slide, and you should also have been provided with a copy of the Ontario Finances themselves.

To start into the slide package, a chart that you'll be familiar with and one that was in the minister's presentation as well outlines the balanced budget plan for Ontario and shows the progress to date. As the chart shows, the government is on track to eliminating the deficit and balancing the budget in the year 2000-01; 1996-97 was the second year in a row that the deficit target has been overachieved. You can see from the chart that this year, 1997-98, we're also well on our way to overachieving the budget deficit target. In the 1995-96 year, the budget deficit target was overachieved by $508 million. In 1996-97, the actual deficit was about $1.3 billion below the original target. At the moment, we're looking at a deficit of $5.2 billion for this fiscal year, which is $1.4 billion below the $6.6-billion target that was set out in the budget.

On to the next slide. These slides will go into progressively more detail about the fiscal plan, specifically with regard to the 1997-98 year. This one provides an overview of where we are on the deficit, with a comparison of the fiscal numbers to those that were put out in the budget and then those that were released today in the third quarter finances. I've already mentioned that the deficit, at $5.2 billion — or $5.162 billion, as you see in the lower right-hand corner — is down about $1.4 billion from the budget plan, and that's about $430 million lower than the second quarter results that came out a while ago.

To break that change down into its constituent parts, our revenue outlook, at $50.8 billion, is $2.4 billion above the budget plan numbers and about $525 million higher than the level reported in the Q2 Ontario Finances. As the minister mentioned, that revenue increase is primarily due to higher than originally estimated personal income tax revenue and the strength of the Ontario economy. I'll go into some of those in a little bit more detail in some of the future slides.

Just some summary comments about the total expense. Our total expense, at about $55 billion or $56 billion, is up about $1.7 billion from the budget plan and about $95 million from the second quarter results. Those changes are primarily due to an increased provision for restructuring and other charges and transitional expenses, both of which were already announced in the Q2 Ontario Finances.

Also included in the Q2 Ontario Finances was the fact that we are no longer going to be needing the reserve. Steve alluded to that reserve in his remarks. That is an amount of money that we put into our fiscal plan every year as part of the prudent budgeting practices we've adopted. It was a practice that was recommended by the Ontario Financial Review Commission. The federal government does a similar thing as part of its fiscal plan. The idea behind that reserve is that it's designed to protect the fiscal plan against unforeseen economic and fiscal risks such as changes to the economic outlook. At this point in the year, we're quite confident that we're not going to need that reserve, so we put it to the bottom line as of the Q2 Ontario Finances.

On to the next slide, which provides a summary of some of the revenue changes. To make it a little easier,

we've split out the changes so that you can see what has changed from the budget, but as well what has changed since the last Ontario Finances were released. You'll see that the first column talks about changes from Q2 Ontario Finances and then the last column does the comparison to where we were at the figures that were released in the budget.

I mentioned that most of the change on the revenue front is coming on the personal income tax side, $630 million higher this quarter, and that's based on data we've received from Revenue Canada in respect of 1996 personal income tax assessments. The PIT forecast is now about $1.8 billion higher than we released in the 1997 budget due to stronger 1997 growth, but as well a significant amount coming from the higher 1996 assessments, which we're required to report in our 1997-98 fiscal year under the accrual accounting method that the province uses now.

There are no changes this quarter to retail sales tax, corporations tax or land transfer tax. All of the changes that you see there since the budget time essentially are reflecting fairly robust economic growth, and all of those were reported in the Q2 Ontario Finances.

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Government of Canada: There have been a few changes in our net transfers from them, a net $10-million increase this quarter. That's due to a couple of things. One of them is our expected share from the federal government for some of the disaster relief expenditures we're undertaking. It's a cost-shared program and the federal government provides us with a fair amount of money under that particular program. As well, every time the personal income tax numbers go up, our entitlement under the Canada health and social transfer goes down, so you see an offsetting amount of money on that side of things.

Income from government enterprises: That's where you would see some of the Ontario Lottery Corp income. The major change there is that it's down $90 million due to a revised implementation schedule for the video lotteries, and that is reflected in the Q3 Ontario finances that were released today.

The other revenue change is also in the gaming area, and that's the line where we show revenues from the charity gaming clubs. As well, the change that you see there reflects a revised implementation schedule for those.

The fairly significant change in other revenue that you see from the budget time, the $610-million figure in the lower right-hand corner, again was announced in Q2 Ontario Finances, but that's an amount of money that reflects that the province will be continuing to deliver on behalf of municipalities, for an interim or transition period, a number of programs that will become municipal responsibility under the local services realignment. Until the time when the municipalities are actually able to take over the delivery of them, the province will be billing them for those services, and you see that revenue reflected there.

On to the next slide, a summary of the operating expense changes. We've already talked about the ice storm relief, an extra $65 million this quarter on the operating side of the equation. You'll see a $10-million increase on the capital side that brings it to the $75-million number that the minister has talked about. That's broken down into a few parts: $55 million for immediate assistance through our Ministry of Municipal Affairs, and $10 million for the farming community that you would see in the Ministry of Agriculture, Food and Rural Affairs.

The increased education amounts that you see there are consistent with the announcement that Minister Johnson made last month with regard to stable funding. Those numbers are reflected there and have already been communicated to the individual boards.

Some good news on the social assistance front: continued caseload savings. The forecast is down 20,000 from initial projections due to some of the reform measures as well as improvements in the province's economic conditions, which have increased job opportunities.

Consistent with the improvements in the economic outlook, we're also seeing some savings in the public debt interest area, $40 million in savings reported this quarter, for a total of $144 million savings from the budget. That's a result of interest rates remaining below the cautious budget forecast assumptions that Steve already talked to you about that we use. We adopt a forecast that's about 100 basis points above the consensus of the private sector forecasters, and with economic growth being fairly robust, we're seeing some savings on that front.

I mentioned earlier some of the changes on the restructuring charges. All of those were announced in the Q2 Ontario Finances. An additional $900 million was put in, a provision at that point in time, in second quarter, bringing that to a total of about $1.5 billion, fairly consistent with the amounts of money that have been spent in the last two fiscal years: about $2.4 billion last year and about $900 million in the 1995-96 year.

Local services realignment: I already mentioned that under the revenue slide. This is the expense the province will continue to incur on behalf of the municipalities and we will be reimbursed by municipalities for that amount. You saw the offsetting figure in the previous slide.

The other significant change since the budget was pay equity. Consistent with the Q2 Ontario Finances release, the government will be spending an additional $140 million this year for one-time, retroactive pay equity costs for those agencies that are using proxy comparisons.

On to the next slide, which details some of the capital expense changes. I already alluded to the disaster relief amount. That's for public agency, then municipalities, for damaged or lost public property as a result of the storm. The other changes were already announced in the second quarter: again, local services realignment and some changes on the developmental services side of things.

On to the next page, a little more detail about the restructuring and other charges that have been provided for in this fiscal year. I mentioned that for 1997-98 the total provision now stands at $1.5 billion. That's higher by $900 million than was provided in the 1997-98 provision. This slide gives a detailed breakout of where we are with

respect to the breakout of that particular amount. You'll see that basically most of that was already talked about in the Q2 Ontario Finances. Some of it was also included in the budget; the first couple of lines were in the budget. The health care restructuring refers to the ongoing hospital restructuring amount, a multi-year program under way to do some restructuring in the health care area.

There has also been some money put aside under the municipal capital and operating restructuring fund for local services realignment. Some of that money was reallocated in Q2 Ontario Finances in the minister's December economic statement and reallocated to a couple of funds that will be used to provide municipalities with assistance as they undertake some of the programs that will be moving over to them. I'm specifically referring to the special transition fund and the special circumstances fund there as well as the municipal restructuring fund. More details about each of those individual funds will be going to municipalities fairly shortly as to specifically how they can access those.

As well, the fall economic statement talked about highway transfer amounts. Some had an increase over amounts that had previously been provided for those.

New this quarter is the line that is about second from the bottom there, the city of Toronto financial assistance for the local services realignment. You see a $50-million provision there that goes against the additional $900 million that was provided in Q2 Ontario Finances. That's for a grant that will be provided to the city of Toronto in addition to some loan assistance to assist them with the local services realignment.

Still to be allocated before the budget: $735 million. More details will be coming on that as we work towards the budget. Any unused amount there would go directly towards deficit reduction.

On to the next slide. It's just a historical comparison, showing that between 1984-85 and June 1995, spending had increased at a much faster pace than growth in population and inflation. If spending had grown just according to population and inflation, you'd see that we would be spending more in line with the lower line on the figures. When the government took office in June 1995, there was a fairly significant level of spending that has been essentially reversed now in the last couple of years. Spending per person in 1997-98 will fall to about $4,908, a decline of 2% from 1996-97, and spending per person this year is down about 6.5% from the high of $5,300 or so recorded in 1995-96.

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As the minister alluded, the fiscal challenges are certainly not over. The government was spending about $1 million per hour more that it was collecting in revenue in June 1995. Just to update you on that figure, it's still spending, with a $5.2-billion deficit, about $600,000 more per hour than it's bringing in in revenues. On the PDI front, our interest payments are now accounting for almost one fifth of our total revenues, a fairly significant number. The last slide just reiterates the balanced budget plan and shows again that we're well on our way to meeting the balanced budget in the year 2000-01. However, we still have a fair way to go.

With that, I'll turn it over to Tony.

Mr Tony Salerno: I'm pleased today to provide the committee with an overview of the operations of the Ontario Financing Authority. To start off, I'd like to give you a sense of the key responsibilities of the Ontario Financing Authority.

First and foremost, our principal responsibility is to ensure that the borrowing and liquidity needs of the province are met cost-effectively and within policy and limits. We manage the province's cash flows, all the ins and outs that you've heard today. The other key responsibility is to coordinate all of the banking activities across ministries and agencies of the province.

The graph in front of you illustrates our achievement in minimizing public debt interest in the last two years. You can see that since 1995-96 the accumulated deficit has grown by $12 billion, an increase of 13.4%. Over the same period, however, the increase in public debt interest has been held to — when I say "only," it sounds like I'm trivializing it, but in relationship to the growth in the deficit, $571 million growth, or 6%, is cause to say "only" in relationship to the growth in the deficit. This is a significant achievement. To be sure, the favourable interest rates that Steve spoke about have gone a long way to make this happen. For example, in 1997-98 the 30-year interest rates reached an all-time low, dipping for a little while below 6%. The Canada rates are still below 6% today.

Furthermore, a very happy occurrence is the fact that the Canadian rates have been and continue to be below the US rate right across the yield curve. This is the first time this has happened on a sustained basis.

While the interest rates have been and continue to be favourable, particularly in the long end of the yield curve, I think what has made it happen is effective management of the province's finances. First of all, it's important to realize that to minimize PDI, one could go a long way by reducing the amount that we borrow. Second, I think the OFA has been effective in executing the borrowing strategies for the province. A key component of the OFA strategy and minimizing the cost of the PDI, or public debt interest, has been to reduce the amount we need to borrow to meet the province's financing needs. We have done this in a number of ways.

We have reduced the level of liquid reserves by over $8 billion since 1995-96. With the improved fiscal situation, concerns about the province's ability to access markets have been reduced significantly. Liquid reserves can be reduced significantly while at the same time still meeting the cash needs of the province. In reducing the level of liquid reserves, depending on the steepness of the yield curve — and let me just say what we mean by the yield curve. The yield curve is the interest costs across the spectrum of the term; in other words, ranging all the way from short-term paper or floating debt to the 30-year bonds.

Clearly, the greater the difference between short-term rates and long-term rates, the greater the saving in minimizing the amount of liquid reserves we carry. The liquid reserves are clearly a drain or a cost to the province in that you need a certain level of liquid reserves, but because we're borrowing long, by and large, and investing short, when we're holding liquid reserves there is a cost to those liquid reserves. In minimizing the level of liquid reserves we can operate with, we have achieved significant savings.

Also, through a concerted effort to rein in surplus funds from agencies across the government, borrowing was reduced by a further $300 million. These are funds essentially that were kept as liquid reserves, many liquid reserves within the various agencies, the Ontario Realty Corp, the casino corporations and others.

We've also moved to sensitize senior civil servants across the government to the time value of money. It sounds trivial, but often that lesson has to be re-emphasized. A dollar today is clearly worth more than a dollar tomorrow. What we've done to make them sensitive in a real way to this important concept is that effective cash management will form part of senior managers' evaluations. The objective here is to collect the province's revenues on a timely basis and to pay our bills, again on a timely basis, avoiding late payments but at the same time not paying in advance of the due date.

Through these measures, we have minimized the amount the province needs to borrow. Clearly, the less you borrow, the less you access the market, the lower the interest costs you will ultimately have to bear.

At the same time that we have reduced the amount we borrow, the OFA is securing the lowest effective borrowing rates for the province. We have an active investor relations program that ensures that when the province accesses the market — whether it's in the domestic market or in the foreign markets — we have a strong recognition, all of which will ensure a positive reception of the province's debt issues and will ultimately minimize the rate the province needs to pay.

This obviously has helped to create a diversified market for our paper, the provincial debt papers that we issue. You can equate it to a business: The more demand you create for your product, the better off you can be. In this case we've increased the price we can sell our product for, and as you increase the demand, the yield will ultimately drop.

In fact, as an indication of this, during 1997-98 the province enjoyed the tightest spreads over the government of Canada bonds, and by "tightest spread" I mean the difference of premium that we pay over the government of Canada rates. This premium has been, in fact, lower than when the province had an AAA rating.

As you can see in this pie chart that should be coming up, the Canadian market has been and continues to be the key source for funding the province's requirements. However, the province has issued in a number of foreign currencies, including the US dollar, which is our next biggest denomination, and the Japanese yen, and other currencies including the French franc, sterling, the Deutschmark and others. These markets will be accessed and continue to be accessed when it can be done in a cost-effective manner.

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In addition we continue to work with dealers in structuring products that meet the specific needs of investors. In this way we can access niche markets where we can effect a lower cost to the province. Just some examples of this: Over the last two years, we've issued 14 what we call "medium-term notes" in the Canadian market, for a total of $1.3 billion, which saved $60 million over a plain vanilla type regular issue. We've accessed others through 16 European medium-term notes and four Japanese-targeted issues, totalling $2.7 billion, again niche markets, for a total of $30 million in savings, again over plain vanillas or straight domestic issues.

We issued, for the first time, in 1996 our first French franc issue. We repeated that in this year's program. We went back to the French franc market. Between the two issues we raised $1.5 billion, again through judiciously managing the timing, because essentially it was done in a French franc issue to the French market in French francs. We managed the FX, foreign exchange, exposure we took on when we did the issue. Through judicious management of that and the interest rate, we stayed floating for a while and then locked it in when the interest rates were lower. Through these strategies on those two issues, we saved $97.5 million.

We have also put in place strategies to further reduce the costs of operation, in other words, the overhead we incur. We've also introduced in the past two years the concept of floating debt. In the past, for instance in 1996, when you netted out the level of liquid reserves, we actually had negative floating debt. This is something that in fact will create a drag on the cost of managing your debt, because generally floating rate is at a lower rate than long-term rate. We have now moved to a floating rate debt that is 9% of the total net of liquid reserves. This is still well below the 20% limit that's imposed on us, and again we will move that floating rate debt based on our interest rate calls to minimize at the same time the interest rate risk the province is faced with.

In terms of comparison with other jurisdictions, the federal government currently has floating debt of around 35%, and other provinces are considerably higher than us. What we've done here is gradually move to more floating debt while still minimizing the interest rate exposure the province is taking on.

Our foreign exchange exposure, as the minister indicated earlier, is absolutely minimal. Right now it's about half of 1%. It has been as high in the last two years as 2%. Our policy allows us to go up to 5%. It was higher when we had the French franc exposure.

Currently it's a good thing we are in fact at a minimal level of floating debt. You may have read about Quebec a couple of weeks ago. Where here we're reporting lower PDI, Quebec was forced to announce that their PDI was going up significantly because of the heavy foreign exchange exposure they have. That's not to be critical of the

French position because at times FX exposure could result in considerable savings in public debt interest, but it's a matter of timing.

Other measures we've taken to lower the financing charges, which in turn reduce PDI, are that we have reduced the line of credit we have with the banks by US$2.75 billion and we've also negotiated lower rates for an annual saving of $1.5 million. We've negotiated and had a tender for a new banking contract where we've brought into our banking contract a number of other agencies of the government, including the LCBO for example, and through this we've managed to save another $1.3 million annually in our banking charges. Currently it's about $5 million annually; it used to be over $6 million.

We've also reduced the administrative costs of the Ontario savings bond campaign by $3 million over the last two years. This would have been added to the PDI costs.

The important thing to keep in mind is that these public debt interest savings have been achieved without exposing the province or enhancing the risk the province undertakes; in fact, at the same time we feel we've tightened and codified the policies and practices that the OFA operates under.

As the minister alluded earlier and as I've stated as well, the foreign exchange exposure is limited to 5% of total outstanding debt. The floating rate exposure has been set as a policy not to exceed 20% net of liquid reserves. We've established policies to limit our exposures to organizations that we deal with in terms of swaps. Swaps are exchanges of debt obligations. This is undertaken, for one, to limit or eliminate or hedge our foreign exchange exposure. This policy has been set so that we will not be dealing with counter parties that are rated less than A.

Our risk exposures are measured and monitored and are reported on a daily basis to our risk management committee. The OFA is in the forefront of measuring in an objective fashion the performance of our activities as we raise the money for the province. We monitor and report daily on the cost-effectiveness of our borrowing, risk management activities and other investment activities. We set benchmarks and measures against which we are measured.

In conclusion, I would say that as a result of the OFA's success in minimizing public debt interest, the government is able to devote more resources to priority areas, as the minister indicated, which are reducing the deficit, lowering taxes and/or reinvesting in priority programs.

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Mr Gourley: That concludes our presentations and we'd be happy to answer any questions.

The Chair: Thank you, gentlemen. We'll start with the official opposition.

Mr Monte Kwinter (Wilson Heights): Mr Gourley, I want to talk to you about a couple of things. You talked about the provisions that were made, about the jobs that were created. What provisions have you made? I've had many calls from constituents who are very concerned about the merger talks that are taking place; 6,000 jobs going here, another 6,000 jobs going somewhere else, another few thousand jobs leaving. There seems to be an impression that consumer confidence is growing. There certainly seems to be an impression that net new jobs are being created, and yet on the other side you hear some of these disturbing reports. Have you done any projections or do you have any idea of what is happening in the labour force as a result of what is taking place?

Mr Gourley: All of these forces that are at work certainly do influence consumer confidence. As to the particular announcement that involved a potential loss of 6,000 jobs, that's certainly a disturbing consequence of a merger, and of a takeover as it were, so that could affect consumer confidence.

What we have been talking about is in essence where it is today. We think the surveys that are undertaken on consumer confidence basically demonstrate where it is today. There isn't a lot of work done on trying to project where it's going to go because conditions, whether it be — I'll use another example that's quite outside the influence of Ontario's economy, and that is the whole issue of United States action vis-à-vis Iraq. That will have an impact on economic behaviour, particularly in the United States, and because of our export trade relations with the United States, that will definitely have an impact on our economy, that whole consumer confidence and business confidence impact.

I might ask Steve Dorey, the chief economist, to talk a bit about the level of activity that normally goes on in the workforce as a result of normal consequences. When you highlight it out in terms of that 6,000 one, I would argue that's hardly a normal consequence, but there are a lot of businesses being created, a lot of businesses changing and converting, and that has an impact on job creation. We have not done specific studies to say, "This is where we see the major changes taking place," but we are forecasting at a macro level where the economy is going much as the private sector forecasters, so I would ask Steve to talk to both the overall outlook and the labour force impacts of these changes.

Mr Dorey: The net job figures we present are the difference between big changes that happen in the economy every month. Hundreds of thousands of people find new jobs or leave jobs or change jobs every month, so there is a lot of churning in the economy. One would suspect that with increasing international integration that may be increasing. One of the things I think that points to is the need for both businesses and individuals to be adaptable, to have the skills they need to move between jobs to take advantage of new opportunities and so on. I think that's part of the reason the minister was talking about the need for a focus on training, on increasing opportunities for youth through giving them added opportunities in technical schools and so on

Mr Phillips: Just to change the subject to gambling revenues, which I gather are going to be quite an important source of revenue, I noticed in the financial statements that the taxpayers have spent $1 million to set up an agency that will distribute the video lottery funds to the charities and spend another $1 million to set up a video lottery special communications unit, so I gather the prov-

ince is ready to tramp the accelerator on video lottery terminals. What is our revenue estimate now for video lottery terminals for the upcoming fiscal year, and I guess also total gambling revenues? We now have the casinos fully operational. I gather we have the new Windsor casino opening this fiscal year. You've got the charity gaming houses opening. We're spending money on these communications units for the video lottery terminals. Can you give us the estimate on how much revenue we should expect in this upcoming fiscal year from video lottery terminals?

Mr Gourley: We haven't completed the final estimates process for the budget, but it's certainly in the order of hundreds of millions of dollars, and that will really depend on the final analysis of how the implementation of video lottery terminals will go on. Will it go on in a smooth manner? As we pointed out in the third quarter finances, we have had to reduce the estimate of revenues from this year because the implementation schedule was delayed.

We have been planning and hoping that by next year there will be more or less full implementation of the video lottery program, but it hasn't been finally determined as to exactly what pace it will take place at. That's a decision still to be taken and our actual estimate will depend on that. So the estimate we see in the budget may —

Mr Phillips: But it's hundreds of millions of dollars.

Mr Gourley: Yes, it is.

Mr Phillips: Maybe we could follow up. Again, I'm very sensitive on timing here, unfortunately.

Teacher pensions: I note that in the financial statements you record expenditures of $683 million last year, 1996-97, and $555 million in 1997-98, but on an actual cash basis, how much money has actually been paid by the taxpayers, the total is $800 million more than that.

Mr Gourley: Right.

Mr Phillips: When we look at our financial statements, on which we calculate the deficit, those financial statements record teacher pension expenditures by the taxpayer $800 million lower than the actual cash outlay. It seems, to a lot of people, odd that we don't see the $800 million of actual expenditures ever recorded in the financial statements; they're back somewhere in the footnotes.

What's the number we should anticipate for the upcoming fiscal year, as this committee is trying to wrestle with its advice on the finances, and should we expect a difference between what you plan to put in the books and what you plan to spend of somewhere around $400 million to $500 million?

Mr Gourley: The difference arises largely as a result of the difference between cash accounting and modified cash accounting, which we were previously on, and the accrual accounting. If I can put it this way, the smaller number, or the number that we have been reporting in the past few years, is actually the calculation of the obligation that the government has undertaken for that particular year. If you like, it's the value of the benefits earned by teachers, less their contributions and less a couple of other adjustments. It's essentially the value of the pension benefit earned, so it's the commitment made by teachers. That's the accrual notion, that you attribute to the year in which a particular obligation is undertaken the cost of that obligation.

The cash obligations arise, as you know, in part from paying to the fund the actual contributions that the government makes, since it matches teacher pension contributions, but in addition the special payment in respect of the unfunded liability, and I believe there's one other charge that I don't have at my fingertips. At any rate, the total is, as you point out, higher in cash terms than it is in the expensed or terms reflected in the accounts.

I point out that the public document, the expenditure estimate, includes the cash value. Those are voted at the present time on a cash basis, so the higher amount is the amount that's actually appropriated by the Legislature, the cash amount. That cash comes from the consolidated revenue fund. The cash reporting of the province's activity is actually part of our ongoing reporting, so it is reported. It's just reported, if you like, as supplementary information; so what are the actual cash transactions going on? The difference you've noted here is one that's particularly striking, but it's no different from other circumstances or other situations where accrual accounting requires that we record the value of the obligation the province has entered into in the year in which it was entered into. It's, if you like, costing of the value of the benefit in the right year.

The Chair: Mr Silipo, you have about three and a half minutes left on the second round.

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Mr Phillips: What is the total time?

The Chair: We're going to 1 o'clock.

Mr Phillips: I meant for each caucus.

The Chair: You have about 15 minutes per caucus. Mr Silipo?

Mr Silipo: I just wanted to doublecheck a couple of figures to see if I've understood them. In the first package, the presentation by Mr Dorey, the jobs chart, is the 234,000 jobs shown at the right end of that chart what you're projecting the growth will be over the next year?

Mr Dorey: No. The 234,000 is the number of private sector jobs created over the last 11 months. That's the job creation from February 1997 to January 1998.

Mr Silipo: So that's an actual number. What are the projections?

Mr Dorey: We revise our projections twice a year. We produce projections in November that go into the fall economic statement, and again revise them for the budget. In light of the strength of jobs, particularly in January, we will undoubtedly have to revise these numbers, but the projection for job growth for 1998 is in the order of 2.8% to 3.5%. The 2.8% would work out to about 140,000 jobs, so that would be about 140,000 to 200,000 or so in terms of annual average, year over year. Those will obviously have to be revised before the budget.

Mr Gourley: Just to clarify, that data was in the fall economic statement projections.

Mr Silipo: Thank you. As to the changes we've seen in revenue over I guess the last couple of years, certainly

reflected now in the third quarter statement, first of all the big chunk of it is, as you noted, the personal income tax moneys that have flowed from the federal government. Can we expect that there will be further changes to that between now and the end of the fiscal year?

Mr Gourley: Typically, not a great deal. There could be. These would be what I'll call anomalous adjustments. At this point in time the vast majority, over 99.5%, of the returns have been processed, but occasionally, in my experience at any rate, there have been adjustments to reflect appeals. The appeals experience has been different, and that could bring $10 million or $40 million.

Mr Silipo: But most of it has come in, then.

Mr Gourley: The vast majority of it. I don't see hundreds of millions of dollars, for instance, on the horizon.

Mr Silipo: All right. The $610 million under "Other revenue" — I missed that part of the presentation; I had to step out. Could you just tell me again what that is?

Mr Andersen: The $610 million refers to some of the reimbursement of the local services realignment amounts, and that's for the programs that the province is going to continue to deliver on behalf of the municipalities. It falls in there.

Mr Gourley: So there is an expense and the revenue offsetting that expense.

Mr Silipo: When we look at the pattern that we've seen on the books over the last couple of years, in my perhaps simple way of looking at things and the way in which I think the average person out there might look at this, what we've had is — I know you talk about being cautious and conservative, I presume just small-c conservative, in your estimates of the revenues, but we have a pattern over the last couple of years that then shows up on the deficit targets. The numbers vary, but it's from $1 billion to $1.5 billion a year in difference between the original targets and then what actually happens at the end of the year. Have I got that right?

Mr Gourley: That's correct. My comment would simply be that one has to recognize that in all of the targets, going in we know that there's a $650-million reserve, so $0.7 billion — if you believe there is not going to be a problem with the economy, you automatically know the target is going to be overachieved by $700 million or $650 million. That's a given if you believe that.

If you believe there is going to be a problem in the economy, then that still allows them to achieve the target, with the tolerance being an error in our prudent and cautious forecasting of 1.5% on real gross domestic product growth. So there is already a level of caution built in, and Steve mentioned the three others, the interest rate assumptions that we make and so on, all of which have additional caution built into them. We've got lower forecasts, we've got a reserve, and we've got other assumptions that compound the caution, if you like.

Mr Silipo: Looking at this in as straightforward a way as one could look at it, one of the things that continues to puzzle me, coming at this certainly more recently than many people around this room, is that when we look at those numbers and we see on the one hand anticipated growth or projected growth when we go back two or three years to the beginning of the government's term, projected growth from then into this year and into the next couple of years, and yet when you look at the numbers on the page, they show revenues year after year as actually being lower. Wouldn't that strike the typical person as a little bit odd, that a government that is saying the economy is growing is at the same time saying we are going to get less revenue? And then in fact what we find out when all the numbers are in is that revenues aren't down —

Mr Baird: They are what?

Mr Silipo: — because then you'd get the numbers in that aren't put in in the first calculation. Explain to me the logic of that, or explain to me how I would explain it to a typical constituent of mine who looks at this in a logical way and says, "If you're telling me that the economy is growing, why am I not seeing in the first cut at the books that the revenue is actually going to go up?"

Mr Gourley: I think the primary rationale for the government's approach has been to avoid circumstances in which it promises to meet a target, it promises to fund hospitals and school boards at announced levels within the various envelopes that have been announced, and then if the economy doesn't turn out to generate all of the revenues that we have estimated the economy would do, in the middle of the year we would have to tell those same hospitals and school boards: "Sorry, we've miscalculated. The revenues aren't there. You have to cut back in-year." That has been an advantage of the prudence and caution that is built in.

It's true that it has been hundreds of millions of dollars in additional revenues that have come in. That has meant the government has overachieved its deficit target, so it has applied it to the deficit target, or restructuring charges essentially, but it has also meant that hospitals have been able to count on the budget allocations they were given, universities the same, and the same is true for school boards. The public sector generally has been able to count on the level of funding that was announced initially, as opposed to trying to make an in-year adjustment.

Mr Silipo: But it also could have meant, given the pattern of year over year the actual revenues having proven to be much higher than the government initially said they were going to be, the government had the choice of being clearer about that at the front end and/or not cutting expenditures in areas like health care and education.

Mr Gourley: The government did have those choices, but I believe at least in the documents that we have been talking about here we have been trying to be clear about the level of prudence and caution for the very reason of needing to protect the priority programs, as the minister describes them, and to ensure that those resources are there, because to announce that funding levels will be X, whatever they are, even if it's new money, and then to have to take it back in-year is problematic for everybody.

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Mr Silipo: We have —

The Chair: I'm going to have to interrupt you there, Mr Silipo, because your time has run out.

Mr Baird: I wanted to discuss consumer confidence. I have the revenue numbers and the consumer confidence chart from Mr Dorey's package.

Consumer confidence is on the rise, and I know my colleague Mr Silipo was talking about the taxation revenue. I have on page 10 of the second document, Ontario Finances, the third quarter report, retail sales tax revenues up, corporation tax revenues up, gasoline tax revenues up, fuel tax revenues up, land transfer tax revenues up, mining profit tax revenues up, overall up by more than $1.2 billion in terms of tax revenue, without — in fact, with reducing taxes, not raising them. What's the relationship, in your judgement, between that and consumer confidence?

Mr Gourley: Perhaps I shouldn't talk about my own personal spending patterns, but at any rate I know I've made a few purchases on the basis of my general view of things that are happening. Some of that retail sales tax is attributable to people just feeling better. It's also reflected in investments. As people invest and create jobs, obviously those jobs that we've been talking about are going to result in more people paying income tax. They'll be paying at a lower rate than previously, but they'll be paying income tax. That is growth that you see in the personal income tax, the retail sales tax.

I think the corporations tax is simply a function of companies doing better, investing in people, creating jobs and as a result making higher profits and therefore paying more tax.

The land transfer tax: Mr Dorey's presentation and in fact the minister's presentation talked about housing starts, the confidence that's represented in that. That is a very delicate area because it does truly reflect, I'll say generally in the case of housing starts, young people's view of the future, whether they can take the risk of investing in a home. So it has not been a one-month phenomenon. In fact, it has been a sustained phenomenon, this improved market for new homes. That's reflected in the land transfer tax. The resale market has been very good, with the exception of the one last month, but it has been very good over the past year. All of this to me reflects people's renewed confidence.

It's all working together to create an environment. I don't think there's any one single factor you can point to and say: "If you want to improve consumer confidence, lower interest rates. If you want to improve consumer confidence, reduce taxes." I don't think there's any one factor you could point to and say, "Aha, that's the real trigger." It's the combination of all of these things feeding on each other, much as the reverse. When the reverse is true, people put their hands in their pockets and companies won't invest, companies won't hire, people won't move and it just works in reverse. Fortunately, we have a situation in which the consumer confidence and business confidence are running parallel to each other, although I think the consumer has been leading the business confidence indicator somewhat. So consumers are feeling more confidence, and as they've felt more confident business has become more confident.

Mr Baird: I noticed the Liberal member for Ottawa South said: "They" — the taxpayers — "have more money in their pockets and therefore they have a lot more money to spend. Tax cuts increase domestic consumption." Of course, the Liberal member for Ottawa South is John Manley.

The consumer confidence index: What is your forecast for the coming year, 1998-99? Is it expected to continue to rise in relation to consumer spending?

Mr Dorey: We don't formally forecast consumer confidence. One of the things we know is that consumer confidence tends to be affected by employment and to some extent interest rates. Those are the two key variables in terms of consumer confidence if you track them over a period of time. Since we expect continuing solid job growth and moderate interest rates, we would expect to see consumer confidence continue to rise.

Mr Gourley: I would just make one comment, if I could, on the issue of interest rates. I would say that there are differences between interest rates that change, I'll say frequently, by small amounts over time, and a large shock, if you like, in an interest rate change. That can have an impact. Those can have different impacts at different times when combined with other circumstances in the economy. As Steve says, we do not forecast consumer confidence.

Mr Arnott: I raised with the Treasurer the issue of debt reduction, something that I feel is very important and that the people in Wellington county are very concerned about. In his statement he indicated that Ontario's debt-to-GDP ratio was for many years between 15% and 18% and has now rocketed upwards to around 30%. Are you aware of the C.D. Howe study which has looked at the federal debt and come to the conclusion that a more appropriate level of debt to GDP would be about 20%? This is something that came out about a month ago or so. Would you concur that around 20% of debt to GDP in Ontario is a more appropriate level as a goal to shoot towards?

Mr Gourley: I'm going to ask perhaps both Steve and Tony to comment on this as well, but my comment would be that this whole issue is a matter of debate. Some people feel that you should eliminate debt entirely, and that is certainly a rather extreme position, but whether a 20% — and here we're getting into an issue of targets or directions as much as anything. The important statement, at least as far as I'm concerned, is that it be reduced, because I think Mr Andersen's presentation showed how sensitive we are to foreign debt and short-term debt and long-term interest rates and so on.

Mr Andersen pointed out that 20% of our revenue is now going to pay public debt interest as opposed to ongoing, current programs. That is probably not a long-term, sustainable path. The federal government is in the order of 35 cents out of every dollar collected going to public debt interest. Those two differences are rather stark when you compare them to the early 1970s, when both governments were at about 11 cents or 12 cents out of every dollar going to public debt interest. That sort of level, some level of debt is sustainable. Whether it's 20% or not, I'd be happy to have the debate rage on because it means that

people are not arguing about the direction; they're arguing about the quantum of the end point. But clearly, whether we are at 20% or 22%, if you're standing at 30% today and you want to get to 20%, that's got to be a laudable goal. Whether it's the right goal or not, I don't think anybody knows the answer to that question.

Steve and Tony, do you want to comment?

Mr Dorey: There's no perfect number. We know that what matters is combined federal and provincial debt. That number is close to 100% of GDP at this point. The Maastricht criterion for membership in the European monetary union is 60%, and that's a useful number because obviously that will cloud international perceptions of whether we're a high-debt country or a low-debt country relative, for example, to the countries that will join that union.

Mr Gourley: So the issue of what is the right number I think is open for debate, and C.D. Howe's challenge, what amounts to a challenge, and they've done comparisons looking at the long-term sustainability of program, but I think there is a general feeling within the population that debt is a problem. What I would dearly love to know is whether it's public debt or personal debt that is the primary concern of individuals.

Mr Arnott: Or a combination of both.

Mr Gourley: Or a combination of both. But I think people are all too well aware of public debt. The federal government certainly has certainly gone a long way to making that an issue, as have all provincial governments. I think that's good public policy if we can be sensitive to it.

Mr Arnott: Quite a number of provinces, of course, have pursued debt retirement policies to the logical conclusion, which is to pay off the whole debt. I think you need to have some measurable goal and work towards that goal in order to achieve anything and perhaps maintain the discipline that's required over a number of years. We've gotten into this debt mess in this country over a 25-year period, and it's going to take some discipline over quite a number of years to get us out of it, in my view. The province of Alberta, I understand, is almost to the point where it will be retiring its entire net debt, which is certainly an enviable position for them, and it's a course of action that I would recommend as well for Ontario.

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Mr Gourley: We just have to move some of those oil and natural gas resources to Ontario to help us out with our discipline.

The Chair: Mr Kwinter, you have about three and a half minutes.

Mr Kwinter: Mr Gourley, if you recall, when we had our Hydro meetings we were very concerned about the Hydro situation in relation to Ontario's guarantee of that debt. I noticed that in the minister's presentation to us he estimates that $75 million is committed to disaster relief. That doesn't include Hydro, and I assume Hydro is a major, I don't want to say "beneficiary" of that storm, but they're going to have to pay a lot of that money. I don't assume they insured; they must be self-insured. What is that impact going to be on their debt, and how does that reflect on the province's obligation?

Mr Gourley: I don't have at hand all the detailed impacts, but I believe it's in the order of $100 million or so that could be — I'm looking to staff. The level of damage that was sustained by Ontario Hydro in terms of transmission lines and its facilities and so on I think was in the order of $100 million or $110 million. That's a lot of money, obviously, by one storm, but to be frank, in the scheme of the total debt burden of Ontario Hydro, that's not a large amount. It's certainly a large single-event loss and all of those sorts of things, but it doesn't increase dramatically the level of risk that the province has in its guarantee, nor does it jeopardize, in my opinion, any of the financial forecasts or projections that Hydro has put forward.

Mr Phillips: The question is how the province records education spending in its books. The province now has 100% responsibility for setting the budgets of all the schools in the province, it raises 100% of the revenue now, yet I understand from some comments that the province doesn't plan to record 100% of the expenditures — it plans to show $6 billion of expenditures off its own books — and it doesn't plan to show the property tax revenue on its own books in spite of the fact that it sets the rates and orders municipalities to collect the money and orders municipalities where to send the money. Has the Provincial Auditor commented on this plan, and is the Provincial Auditor in agreement with not showing the $6 billion of expenditures on the provincial books?

Mr Gourley: We have been discussing this very issue with the Provincial Auditor. The issue turns on a number of factors, including ownership and control and the degree of independence, if you like, of the school boards in this case, because they are an elected body with the responsibility for determining the allocation of the resources provided to them.

As you point out correctly, the province has the capacity to influence their revenues, to dictate their revenues, but the province does not in a direct way, other than through the proposed fair funding formula, influence the specific decisions they make as to whether the resources they receive will go to classroom resources, if I could put it that way, versus facility resources or some other resources, school board administrative buildings, that sort of thing, as opposed to schools. The province does not have the decision-making — "power" is perhaps not the right word, but it does not decide how the local school boards are going to spend the resources available to them. That is a significant difference, the fact that —

Mr Phillips: My question is, though, has the auditor commented on it?

Mr Gourley: No he hasn't because, to be frank, we have not yet released the fair funding formula. That is something the Ministry of Education is working on. The nature of that formula will turn on this very question. The funding formula itself will determine the level of resources. To the extent to which it simply creates a number and says, "Here's your allocation for your particular

board reflecting the needs of your board and the costs that are incurred by your board," if all it does is generate a large number which is then taken by the board as their revenue base and they determine whether they're going to spend it on teachers' wages or other staff wages, clearly, certainly based on our discussions, I think the accounting opinion would be that this should not be recorded as a provincial revenue and a provincial expense.

Mr Phillips: Carried to its logical conclusion, you'd take all this spending off the books.

Mr Gourley: No. Our grants are a function of provincial contributions, so you wouldn't take that off. That's not actually their spending; that's our contribution to their revenues, if you like. When they take them in, they'll have two streams of revenues: provincial grants and local education tax revenues.

Mr Silipo: One of the big changes in the expense side that shows up in the third quarter statement is under the restructuring, the additional $900 million. You may have covered this before and I missed it. First of all, could you just cover quickly for me what that is for, and secondly, how much of that, now I guess $1.5 billion, do you expect will actually be spent before the end of the fiscal year?

Mr Gourley: Mr Andersen's presentation provides a detailed breakdown of all of the restructuring, and it's on the third slide from the back of his presentation.

Mr Silipo: There we go. Okay. So just my second question about —

Mr Gourley: He enumerates all of it, although I'd point out, in response to your question, there is still unallocated — second line from the bottom —

Mr Silipo: Right, $735 million.

Mr Gourley: Yes, $735 million.

Mr Silipo: So at least that money has not been allocated —

Mr Gourley: Has not been allocated yet.

Mr Silipo: — and may not be spent.

Mr Gourley: Well, it's possible, and in fact Mr Andersen's comment said if it is not spent, then presumably it could go to the deficit bottom line.

Mr Silipo: Right.

Mr Gourley: However, I'd like to differentiate. Let's say that money, it is decided, is to be spent in the form of a grant or a restructuring expense that will be incurred by a particular municipality or in hospitals, for example. We could actually expense that money as a grant but the local institution may not choose to actually spend it until some time later.

Mr Silipo: Right. I understand that is part of what's allowed under the present accrual system. I appreciate that. The timing is just a little bit more flexible and to be determined on the basis of other considerations, of course.

Mr Gourley: If it's for an ongoing purpose, it can only be expensed in the year in which the operating expense was undertaken, but if it's for restructuring, it can be expensed —

Mr Silipo: Okay. Beyond that $735 million, the balance of that, can you tell me from the different categories where there might be some large numbers of moneys that actually have not been spent?

Mr Gourley: I don't have a detailed, up-to-date analysis on the health care restructuring. That's the largest expense we have recorded. I think to date the pattern we show has been supported by our analysis and supported by what is going on, but that is something that has to be reviewed as we go through the year. I believe there may be some review of that particular amount. All of the other amounts I fully expect to be expensed over the course of the balance of the year.

1250

Mr Silipo: Okay. Along the same lines but with respect to last year's budget and, for that matter, even the previous ones, are there amounts of money that have not yet been spent under the restructuring category from previous years?

Mr Gourley: Yes, I believe health care restructuring again, and there may be some municipal —

Mr Andersen: There are a few areas. The bulk of that money has already been spent. You'll recall that there was some money, about $173 million, provided in 1996, 1997 and 1998 for housing. All of that has gone out to the providers. On the transportation front there is about $200 million in reserves and about $76 million of that has already gone out; there's another $124 million that should be going out relatively shortly. On highways, there was about $350 million committed in 1996-97 and another $50 million this year. All but $8 million of that has already been flowed to municipalities and I think most of the $50 million has as well.

Mike mentioned that health care restructuring really is the one where the cash flow hasn't happened a lot yet. There were provisions of $970 million last year and $450 million this year, and I believe Minister Witmer announced, I think it was in December, about $154 million in cash has already gone out to hospitals for that amount. As Mike mentions, the hospital one is really the one where there is the most significant difference at the moment. However, there are very detailed plans with respect to that restructuring and that was what enabled us to book those expenses to the year we were able to book them to, and the auditor has signed off on those.

Mr Phillips: I want to return to the gambling revenue thing where you talk about hundreds of millions of dollars. I'm just trying to get a perspective on the numbers. Charities are going to get $100 million from video lottery terminal revenue, and that's 10% of the gross video lottery terminal revenue, which tells me that the total gross video lottery terminal revenue is $1 billion. Is that $1 billion for all the machines, for the machines going into charity gaming houses, for the machines going into charity gaming houses plus racetracks?

The second point is, if the charities get 10% of the gross gaming revenue, what does the province get?

Mr Gourley: Ultimately, of course, it depends on the total number of machines that are actually installed, but the perspective we've been using is in respect of all video lottery terminals. That's what we've been trying to reflect

in the province's financial reports. But there is a difference between video lottery terminals at racetracks and video lottery terminals in charitable gaming —

Mr Phillips: You calculate the $100 million. What's it on?

Mr Gourley: I'm going to ask Mr Andersen if he's got it.

Mr Andersen: Just doublechecking here.

Mr Gourley: We can get back to you on that. I'm sorry, I don't have it right at hand.

Mr Phillips: It would be very helpful to our caucus and I suspect to the committee to know the gaming revenue projections, because obviously they've been done. As a matter of fact your 18K — is that what you call the securities commission —

Mr Gourley: That's the securities commission form number.

Mr Phillips: It had some revenue estimates in there, which have subsequently changed. So I know you've done the number. Charities are promised $100 million. How did you get to the rest of the break?

Mr Gourley: I can provide that to the committee.

Mr Silipo: I want to come to another area that I think was covered mainly by Mr Salerno in his presentation around the public debt interest. To make sure I've got this clear, first of all, you're talking about a number of things you've done to minimize the cost of borrowing. I think that by and large those are very laudable approaches. But on this question of what we actually are doing with the public debt interest, I just wanted to be clear that in fact — you used the word "minimizing" — we are paying this year compared to last year more money for public debt interest, apparently because the debt is larger this year than it was last year. So that's the case.

The other point in the presentation that I found interesting was the comment on the low interest rates. I just want to be clear that I understood this because I think there was a comment Mr Salerno made with respect to the impact the lower rates are having on the cost of borrowing, and in fact that that's a positive thing in the sense of obviously lowering the costs of borrowing. He said something about being even lower than when the province had an AAA rating. In other words, there is a greater impact where the interest rates are than where the province's rating is at in terms of determining the cost of borrowing. Is that a fair summary?

Mr Salerno: The reference point is the government of Canada rates and the province over time could pay a varying level of premium over the government of Canada. Currently, or last summer, it reached an all-time low where the premium on the 10-year bond was about 15 basis points over the government of Canada for a 10-year bond. The 30-year premium was as low as about 17 basis points over the government of Canada. That varies significantly. That can vary for a number of factors. The view that people have on credits in general, but specifically the fact that the province is dealing with its deficit problem, has gone a long way to recognizing the creditworthiness of the province and indeed that spread, that premium has been coming down.

Mr Gourley: Compared to what it was when we were AAA, Tony. It was at an all-time low last summer, but when we had an AAA, what might have been the spread, I think I know the answer.

Mr Salerno: When we were AAA back in the early 1990s, the last time, we were between 25 and 35 basis points over.

Mr Gourley: A basis point being one one hundredth of a percentage point.

The Chair: Thank you very much, gentlemen. We appreciate your presentation. We will stand recessed until 2 pm.

The committee recessed from 1257 to 1402.

ONTARIO CHAMBER OF COMMERCE

The Chair: The first presenter this afternoon will be the Ontario Chamber of Commerce, Mr Robson. Introduce, if you would, sir, the people with you. You have 30 minutes, and we'll utilize what time you allow us for questions, if that's acceptable to you.

Mr Doug Robson: Thank you, Mr Chairman. I'm Doug Robson, as you said. To my far left is William Laidlaw, who is our volunteer chief. He's our chair and CEO. Next to him is Atul Sharma, who some of you may know. He used to work here at Queen's Park until Christmastime with Gerry Phillips. Atul is our chief economist and director of communications. Mr Laidlaw is going to address you first.

Mr William Laidlaw: Good afternoon, Mr Chairman. I'll be making some introductory remarks about our vision for Ontario, and Doug, president and chief operating officer, will outline our specifics.

Our vision for Ontario is that it should be the best jurisdiction in the world, the best jurisdiction in which to live and to raise your family, the best jurisdiction in which to be educated, the best at taking care of its elderly and those in need and, most importantly, the best place to invest your money and the best place to start a business.

I believe there is no reason why Ontario cannot create an environment second to none that attracts the engines of growth for the new millennium: knowledge-based industries, high-tech firms and research companies.

In order to make Ontario the best jurisdiction in the world, change must become a way of life for us. We must continually strive to do better and not be satisfied with our past achievements. To make Ontario the best jurisdiction in the world in which to invest and to start a business, it must be competitive. The current government has put Ontario on the right track, but we need to do more. Many of our recommendations are geared towards making Ontario more competitive.

The second but related item to make Ontario the best jurisdiction in the world is for Ontario to create an environment for investment that lets companies grow and be prosperous. We recognize that Ontario businesses can only be prosperous when Ontarians are prosperous. We

rely on a well-educated labour force; we rely on a growth-oriented climate that allows Ontario businesses to prosper; we rely on employed Ontarians to buy our products and services.

So you see, Ontario's prosperity is also our prosperity. Our job at the Ontario Chamber of Commerce is to ensure Ontario's prosperity and we will be pushing all three parties to incorporate these ideas into their platforms.

The Ontario Chamber of Commerce has played a vital and pivotal role in putting forward public policy for Ontario since 1911. The Ontario Chamber of Commerce is a member-driven organization. We have two categories of membership: (1) local chambers of commerce and boards of trade and (2) corporate membership. I am a corporate member and work with Glaxo Wellcome.

We have 10 committees looking at Ontario issues affecting business. The committees include employer-employee relations, education, energy, environment, international trade, tourism, health and government finance. We represent 55,000 businesses across Ontario and 187 chambers of commerce and boards of trade, many of which I'm sure you're familiar with in your own particular ridings.

I mention some of our history because it's important for committee members to understand that we are committed to being a key part of the political process by putting forward public policy ideas. Some of those we will talk about today. You'll be hearing more about our election platform following our annual general meeting in Owen Sound May 1 to May 3. I'm looking forward to that. We will be focusing exclusively on the upcoming 1999-2000 provincial election. All three party leaders have been invited to speak, and I hope, as usual, they will be there. You will be hearing more from the Ontario Chamber of Commerce, as we restructured our organization and updated our mandate. We are now focusing almost exclusively on public policy development and advocacy.

I'll now turn it over to Doug Robson.

Mr Robson: Thank you, Mr Chairman, for having us here today and being here to listen to us. We appreciate that we're the first group up and we consider it an honour.

The OCC is a balanced, non-partisan organization which is interested in putting forward our members' views to key public policy decision-makers like yourselves. Prior to the 1995 election, we issued our election platform in a document entitled Ontario Today and Tomorrow: An Agenda for Renewal. That started in 1992. I'm happy to report that many of our ideas were mirrored in both the PC platform and the Liberal platform. Obviously, we weren't too surprised that some candidates were not championing many of our ideas. Our election wakeup call, which was done in 1994 —

Mr Silipo: You're still a non-partisan group.

Mr Robson: That's right — which provided a quick comparison of party platforms and the OCC position on key business issues, was widely distributed and reproduced.

Generally speaking, the Ontario government has made some bold steps forward in ensuring that Ontario is back on track. By that, we mean that Ontario is once again competitive and conducive to business and growth. We agree with the government's philosophy of doing more with less.

The education reform is something we applaud: the changes to standardized report cards, limits to class size and, most importantly, the stopping of the upward spiral of tax increases to pay for education.

With regard to energy reform, we're very much in favour of competition in the electricity market and we're happy to see Energy Minister Wilson moving quickly in that direction.

With regard to the Labour Relations Act, we feel there's a more level playing field there.

Overall, the direction of the government is one that we support. There have been many positive changes that have made it possible for business to thrive. However, it is important that Ontario continues to do better, that it continues to improve and to become more competitive.

I'd like to highlight some specific recommendations that we believe would make Ontario more competitive than it already is and help to create a climate for growth and for prosperity.

The first recommendation, which I believe you have in front of you, is that we feel Ontario must reach a zero deficit by March 31, 2001, which is the current promise. But if the goal is achieved even faster, that is, accelerated to March 31, 2000, we feel that's even better. Nothing is more important to Ontario's economic future than ensuring that the government meets its commitment to balance the budget. The minister announced this morning that they had an extra $2.4 billion, compared to their budget plan, and the deficit is $1.4 billion lower than expected. We believe that the government is in a position to accelerate their deficit reduction to zero by a full year.

The second recommendation is to continue with the personal income tax reduction. The government's commitment to a 30% personal income tax reduction has helped make Ontario a competitive jurisdiction again.

The third recommendation is a biannual review of regulations to ensure that they're up to date and not a burden on business. In that vein we applaud the work of the Red Tape Commission. We'd like to see a permanent system to remove and sunset antiquated regulations. We feel this would help create a climate which would allow business to thrive and allow Ontario to be prosperous.

1410

With regard to legislation and the education taxes, we'd like to see education to sunset the Minister of Finance's power to set the education tax rates unilaterally. Some of you may have heard us say this before when we spoke on the Bill 160 hearings, but the Minister of Finance, through Bill 160, can now set approximately $6 billion worth of education tax unilaterally. Corp taxes were raised about $5.9 billion in the last fiscal year, 1996-97. The idea of setting corporate income tax by regulation is out of the question, and that's why we believe so strongly that it's inappropriate for the government to set the business taxes by regulation. The rates should be

subject to the same legislative approval process as the provincial budget is, in our opinion.

Another recommendation is that we resolve the current business education tax inequity between Toronto and the rest of Ontario. Minister Eves announced on Thursday at an Ontario Chamber of Commerce executives' meeting, at which we were pleased to have him, along with member Gerry Phillips and member Tony Silipo, that he was maintaining business education taxes at their current levels. While we don't want the government to decimate Main Street Ontario for the sake of Bay Street, the government has to recognize the importance of Toronto to this province and this country and help resolve this situation. The offer to match dollar for dollar Toronto's reduction in the municipal election tax portion is hopefully a solution that can help start resolving this currently inequitous situation.

I gather the minister today confirmed that the government's ultimate goal is to have a uniform mill rate set for businesses, and we encourage the government to move quickly towards that goal.

In terms of energy, we would recommend that we ensure the creation of an open, competitive electricity market by January 1, 2000. As I said before, Minister Wilson appears to be moving quickly in this area and we would like to encourage him to see the process completed before the next election. It's a very complicated process, as many of you know, and this is something we have a huge interest in because we believe it takes away the competitive advantage. We do not believe that Hydro is as competitive as it could be, and it hasn't been for about 10 years.

Recommendation 7: We'd like to see some more clarification of what options municipalities have to compensate for the lost BOT revenue. The removal of the business occupancy tax has caused some concern among our members. Many are seeing their rent increase by 40%. Just as an aside, the chamber rent went up $1,000 a month because of this. It's all to cover the anticipated reallocation of the BOT on to the realty tax.

With regard to social services such as social assistance and social housing, the chamber does not feel it should be paid for through the property tax system, but rather through income tax. We'd like to see the government ultimately remove social services from property tax. We believe it is a mistake to pay for social services through property tax. The government's own chair for the Who Does What panel agreed that it would be wrong to pay for social services through the property tax.

With regard to education, we feel the government should consider reinstating early childhood education through junior kindergarten. All studies that we're aware of indicate that moneys invested in ECE pay dividends in the long run through less crime, less drug abuse and a better-educated workforce. As employers of graduates from our education system, we have an interest to see the government develop a policy on early childhood education.

Lastly, we'd like the government to start thinking about what should be done with the surplus after the budget has been balanced. Our recommendation is for the government to focus on reducing the debt. We feel reduction of the debt must be our first priority. Our debt has more than tripled since 1985; it has gone up significantly since 1995 and it will peak at $117 billion before it can be reduced. As you know, it's currently at about $107 billion. Likewise, the current debt-to-GDP ratio is about 30%. We fully support having that brought in line to its historic Ontario level of 15% to 18%.

That concludes my remarks. I hope we've left enough time for questions by your members.

The Chair: Thank you. We have approximately five minutes per caucus and we'll start with Mr. Silipo.

Mr Silipo: I was just noting — this is a bit of an aside but I will put this on the record — that there are probably at the end of the day more of your recommendations that I agree with than disagree with.

Mr Baird: Hear, hear.

Mr Silipo: I thought that was worthwhile actually stating on the record. There are some that we disagree with strongly, but that's part of the process too.

Seriously, I appreciate very much the comments you make, particularly with respect to things like removing social services and social housing costs from the property tax; fixing the problem the government has caused on the business occupancy tax. I gather that the minister has said he's going to introduce another piece of legislation. That will be the third one now but hopefully that will fix it. We'll see what happens.

It still won't deal, I guess, with the varying rate that still will be applied. In other words, the municipalities still will not be able to in effect have in place the same system or similar systems to what they have now. It will mean that smaller business, as I understand it, will still end up paying more — and a number of the other recommendations here around the importance of things like junior kindergarten and early childhood education.

The question of not taxing by regulation I think is a crucial point and I certainly agree with you there.

I'm just going to ask, in terms of a question, about a couple of the things where we may not have as much agreement — but I also wanted to emphasize that I appreciate the fact that there are a number of areas where I think it's worthwhile to note that we would agree with you that action on those things needs to happen — this question of accelerating the deficit.

It's not so much that I disagree with the statement as you have put it. I actually think that what you're forecasting here is exactly what the government is going to do. What bothers me is the kind of almost sleight-of-hand way in which they're gone about doing it. We were talking this morning with the finance officials about kind of continuing to underestimate at the beginning of the year the revenue that will come in, to then be able to say later in the year: "Look at how well things are going on. We now have an extra $1.5 billion that we can reduce the deficit by." My approach would be to say, why not just be up front about that? Why not put that at the front end?

The question I would have for you coming out of all that is: You're of the view, are you, that the tax cuts the government has implemented are actually worth the cost to us in terms of the cuts those mean to health care, social services and education? It's a loaded question, but you can deal with it any way you wish.

Mr Robson: I don't quite see the linkage that you see. I think it goes back to, in my view: The best welfare is a good job. We see that this province is on a roll like it hasn't been on for a long time, if you talk to the economists. There are graphs and numbers that haven't been like they are now for 30 or 40 years. You talked earlier about whether the economists could predict how things were going to go. I think when things go well in government finance, going down the hill, getting rid of debt and so on, moves incredibly fast compared to building it up.

My point to you is that in the end we'll have a much better system — social security standpoint — if we continue reducing government spending the way we have been.

Mr Silipo: Right.

Mr Robson: I don't know if Bill or Atul have a comment on that.

Mr Laidlaw: The thing I see is that things are going well but more has to be done. I want to encourage the government to continue on with the path they've taken to make this province even more prosperous. The reality is that we have a 68-cent, 69-cent dollar, we're relying on a US economy, and unless the federal government and the provincial government make more fundamental changes, we could be in trouble if there's a recession.

Mr Silipo: I'm not trying to argue with you with respect to the importance of reducing the deficit; I want to be clear about that. What I'm getting at: Is the cost of the tax cut itself worth the price we are paying, as I would put it, for the cuts in other areas? In other words, there would be job growth, I would argue and others have argued, regardless of the tax cut. We can argue about whether it would be the same or not, but there would be job growth none the less. On the other hand, the money the government is putting out in the 30% tax cut is money that's borrowed, and therefore that's adding to the debt, adding to the ongoing cost of government to provide for that, and it means various cuts in important services like health care. That's the issue that, if time allows, I would like you to address more directly.

1420

Mr Atul Sharma: I can take a shot at that. The tax cut has allowed Ontario to become competitive once again across North America and throughout the world. It's a situation where businesses will now again look at Ontario as a jurisdiction in which to make some substantial investments. As Doug mentioned, having a job is probably one of the best social programs we can have. With more investment by businesses in Ontario, we would hope that would also, in turn, create more jobs and help out people who are currently unemployed or on welfare.

The Chair: That's the end of that round. For the government, Mr Baird.

Mr Baird: Thank you for your presentation. We'll certainly take note of your recommendations and reflect them as we undertake this process. I appreciate the time you took to put the package together.

We've seen a number of signs of a rebounding economy, increasing consumer confidence. I noticed that one poll by the CFIB had small business owners in Ontario being the most optimistic in the country. Clearly there's something going on in Ontario that's not going on in the rest of the country, because of the solid job growth, because a majority of the jobs created in the country have been created here in Ontario. Do you think the provincial government's economic policies are playing a major role in the job growth and in the growth of the economy?

Mr Laidlaw: I can tell you that we're a large multinational company, soon to become possibly even larger, and the signs that your Premier sends out are very positive. It's open for business; it's a government that believes in creating an environment for business to grow and prosper. That helps a lot, along with what the feds are doing — I mean Paul Martin and his initiatives — plus the fact that we have a very tremendous growth period in the United States. You're sending out the right signals, you're communicating with business leaders, and that gets around in international circles. The previous government tried their best — it was difficult — but they weren't big on working with business. You are, and that's important.

Mr Robson: If I may, Mr Baird, there's another thing and it relates to what Mr Silipo was asking about: synergy. When you put all these things together, including the tax cuts, there's a synergy here. If you look at five years ago, the early 1990s, in my view Ontarians were in despair, despair over their future and their financial condition, and they are not there now. All these things work to create a good feeling in Ontario. I think people in Ontario now know they have a future and they have a sense of what that is. They didn't have that in 1991, 1992, 1993.

Mr Baird: The issue of consumer confidence is obviously central to economic growth. Do you think the income tax reduction has played a substantial role in that and in the growth of the business community and the growth in the labour market? Do you think stopping the tax cut at this time would hurt or help economic growth and job creation?

Mr Robson: I would answer you by saying that by not stopping it you'd help spur it on, which is what we're advocating here.

Mr Baird: The Minister of Finance has made a proposal to the federal Minister of Finance with respect to youth unemployment. Youth unemployment is a strong concern for many of us across the province. We all agree we've got to do more in that area and see better success. If the federal government could be convinced, as Minister Eves has tried, to waive employment insurance premiums for young people in their first jobs, between 25 and 30 or up to age 29, would that be something the chamber would support and would think would help in job creation?

Mr Laidlaw: Mr Martin appeared before the Canadian Chamber of Commerce two weeks ago and we had a

pretty candid discussion. He asked: "What does it take to hire young people? Tax cuts? Incentives?" The measure we got across to him, I think, is: "Allow business to grow. Allow us to be prosperous. Allow us to be profitable." "Profit" is not a bad word. When you're profitable, you hire more employees, you hire more students. Let's do that and let's focus on creating that environment. From a tax standpoint, from a regulatory standpoint, from a standpoint of government we can afford, right now I think we're overgoverned at a federal, provincial and municipal level. The duplication is unbelievable. Focus on those areas and the companies then will grow and you'll have your problems rectified, in our estimation.

Mr Kwinter: In your recommendation 6 you encourage the government to proceed as quickly as possible with the open, competitive electricity market. I am wondering whether the chamber has taken a look at the issue of the stranded debt and how that is going to be handled, whether that's going to mean there are going to be higher electricity rates or higher taxes, and what your response to that is.

Mr Robson: I don't think we have a considered response. We're well aware of what's called stranded debt and we're as concerned about it as I think anybody else is. We take part in a lot of different organizations with regard to energy. I am not an absolute expert on it except to say that we don't feel we can hamper anybody else who wants to get into the process with that debt, so that still doesn't give you an answer. Atul, did you have a comment?

Mr Sharma: I would just like to add that this issue is actually being looked at by one of our committees and there is a lively discussion on what should be done with the stranded debt. In fact, it also revolved around whether or not there really is a stranded debt. Hopefully in the near future, once we have a full discussion on the issue, we can give you a little bit more of a clear answer on that.

Mr Phillips: I am trying to get a handle on the importance of the property tax issue for the chamber members. There are three or four issues at play right now. There is the business occupancy tax which is, I think without exception, being put back on the realty tax across the province and there are some fairly significant shifts that therefore occur. I think in 1997 banks paid 70% business occupancy tax. Small business — I'm generalizing — paid about 25%. Now they're going to average I guess around 40% or 42%, so you'll see some quite substantial drops in property taxes for people like the banks and quite substantial tax increases for small business.

Then we had the announcement made at the chamber last Thursday. The province now sets the majority of property tax rates for business, because they set the rate on education property tax, and we saw that the range would go from one community that would be paying, for a building valued at $500,000, $5,000 a year provincial education tax and a building here in Toronto, for example, would be paying over $21,600, I think, more than four times the rate.

What I'm trying to get from the chamber is, how important are property taxes to your members, and in their business mix, how important is that? What kind of priority do you think the provincial government has to put on rectifying those problems over whatever period of time it is?

Mr Robson: It's always, I think, an important component of someone's overhead. The concern we have is not dissimilar to what you're talking about, Mr Phillips, that if you get a sudden change in the ratio regarding what used to be business tax and what's now going to be called property tax, that can really impact someone's overhead very quickly.

It was always my understanding that there were going to be graduated changes in the system. Maybe I missed something, but I thought there was a lot of talk about nobody getting a sudden change, that it would be a graduated thing. If nothing else, I think they should look at easing the process because businesses don't like surprises any more than politicians do.

The Chair: Thank you very much for your presentation, gentlemen. We appreciate it.

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ONTARIO CATHOLIC SCHOOL TRUSTEES' ASSOCIATION

The Chair: The next presenter is the Ontario Catholic School Trustees' Association. Mr Daly, would you care to introduce the people you have with you, sir.

Mr Patrick Daly: Yes, thank you, Mr Chair. To my right is Patrick Slack, the executive director of our association. To my left is Carol Devine, the director of political affairs and media relations.

Founded in 1930, the Ontario Catholic School Trustees' Association represents the 29 Catholic English-language district school boards. Collectively, these boards educate over 600,000 children from junior kindergarten to grade 12/OAC.

As outlined in our brief, the mission of all Catholic school boards and their schools is to create a faith community where religious instruction, religious practice, value formation and faith development are integral to every area of the curriculum. This is in addition to providing a complete curriculum as defined by the Ministry of Education and Training. In Ontario, Catholic boards provide this education according to the constitutionally determined rights of Roman Catholic parents.

We appreciate very much this opportunity to present this brief to the standing committee on finance and economic affairs. It is our intent to identify funding issues that have an impact on the quality and equality of educational opportunity available to all elementary and secondary pupils in Ontario.

As outlined on page 2 of our brief, in the executive summary, the brief is broken down into two areas: part A, which deals with the new funding model, and part B, which addresses issues related to the financing of school capital and construction.

Turning to page 4, on behalf of the Ontario Catholic School Trustees' Association, I want to indicate how

pleased we are with the provincial legislation passed in 1997 which reforms the way elementary and secondary education is financed in Ontario. We strongly endorse the legislative changes made by the Education Quality Improvement Act of 1997 in regard to the use of residential and non-residential assessment for education. It has long been our position that the ability of the education system to deliver to students in Ontario programs and services mandated by the province should not depend on the local property taxes available to the school board. We believe the question of the tax mix to be used should be determined by the province, provided the constitutional rights of Catholic school boards are respected.

We go on to endorse the government's plans for the new funding model as outlined in the consultation document, Excellence in Education: Student-Focused Funding for Ontario, which was released on May 21 of last year. We support, again strongly, the five principles on which the new funding model is to be built, which we outline in our brief for you.

We are extremely pleased that fair and non-discriminatory funding for every child in Ontario is now a legislative requirement in our province and not merely a promise. Our expectation is that the soon-to-be-released funding formula will meet this test of fairness. This leads to our first recommendation. For the record, we indicate that the government of Ontario is to be commended for its leadership in proceeding to implement a new funding model that achieves equity in educational opportunity for every child in Ontario.

On page 5 and the top of page 6, we outline the crucial issue for us regarding the recognition of constitutional rights. Our association again appreciates the government's recognition of these rights as introduced in Bill 160. There are many specific references to the constitutional rights of Catholic separate school boards in the Education Quality Improvement Act, and we outline them for you in our brief. I will just highlight a couple.

First, the act states very clearly, and the amendment to section 1 makes it clear, that separate school rights are to be respected in the exercise of power under the statute by the Education Improvement Commission and by cabinet. Second, as I indicated, section 234 sets out a requirement of fair and non-discriminatory funding. The final one that I will refer to, a very important one for Catholic school ratepayers, division B of the act concerning education taxes continues to rely on the designation system. Catholic school boards will continue to require supporters to identify themselves and the school support continues to confer attendance rights, which again is an essential matter for us.

On the second half of page 6, we want to indicate and impress on you our strong belief that education needs to continue to be a priority in Ontario. We appreciate the minister's and the government's recent announcement regarding stable funding. We are pleased that additional dollars are also being provided to recognize transitional costs regarding the amalgamation of school boards. This responds directly to a resolution from our association at our annual meeting last year.

We believe the funding of education must continue to be a high priority. Although moneys may reasonably be reallocated from one area to another within the total funding envelope for elementary and secondary education, no further cuts should be made to education funding. We want to again indicate our belief that the issue of equity and fairness is linked directly to adequacy in funding. Our second recommendation, therefore, is that the government reaffirm education as a priority in funding.

We then go on to speak about an essential issue for Catholic boards in terms of the new funding model, and that's the issue of autonomy and flexibility. That clearly will be an essential issue for our boards to ensure we are able to promote and maintain the mission of our Catholic school systems.

The funding model must allow sufficient flexibility to enable each local board — Catholic or secular, English or French — to fulfil its unique mission and mandate. Our third recommendation, therefore, reads that there be adequate unconditional funding provided in the new funding model to enable Catholic school boards acting as local and autonomous governments to accommodate local needs and priorities and to address the unique mandate of Catholic schools.

This leads us to the next issue, which is one that is very important to Catholic schools in Ontario, and that's junior kindergarten. The educational and social value and the cost-effectiveness of junior kindergarten are unquestionable. Opportunities to develop a strong foundation and socialization, thinking, problem-solving, language, literacy development and physical coordination emphasized in junior kindergarten are especially critical for those children who find themselves in situations that limit physical, social and perhaps intellectual growth.

Junior kindergarten is an integral part of education in Catholic schools — I say that as a parent with a daughter in junior kindergarten today — and therefore should be funded as part of the mandatory program in the new funding model. This leads to our next set of recommendations that junior kindergarten be recognized as an essential component of the learning program, that junior kindergarten operating costs and accommodation be recognized for funding in the same manner as other regular programs and services and that any savings from the restructuring of education should be reinvested in a comprehensive early childhood education program.

Part B of our brief outlines our interest in the area of capital and our belief that capital is an essential component of education funding. We outline our support for the Student-Focused Funding for Ontario paper which proposes a new approach that integrates funding for the operation, maintenance and construction of elementary and secondary schools under pupil accommodation grants. We endorse the two principles for pupil accommodation set out in the paper, namely, that the provincial government will be responsible for providing adequate financial resources to school boards and that school boards will be

responsible for providing school facilities for their students, and for operating and maintaining their facilities as effectively and efficiently as possible.

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On page 10 of our brief, we indicate to you two recommendations concerning capital: that the government continue to recognize capital as an essential component of the new funding model for elementary and secondary education; and that pupil accommodation grants be sufficient to enable school boards to meet market conditions surrounding the lease of non-school buildings.

On page 11, we outline a deep concern of Catholic school trustees and boards across the province, and that is our hope that the new funding model will include the cost of the large debentures that some boards in Ontario now carry. Catholic school boards have had a significant part of the overall debenture costs in the province due to significant enrolment growth, which, as you know, is beyond our control. Our boards have been unable to match public school boards in local revenue to pay for the local share of construction costs because of the difference in commercial and industrial assessment available to them. If no funding support is available to cover these debt charges, Catholic boards would have no option but to divert funding from the classroom to cover these costs, which obviously we do not want to do.

We therefore recommend that the government recognize the unequal burden of debenture debt and associated debt service charges in the pupil accommodation grants.

The last issue we speak to is the purchase of land available for new school construction. On pages 11 and 12, we indicate to you very strongly the constitutional right of Catholic school boards to site and locate our facilities. I won't read that for you but will leave that for you to read at your leisure. We strongly indicate, though, that we do not believe a distinction can be drawn between the delivery of education programs and services to pupils and control of the physical facilities in which they are delivered. It is therefore important that sufficient funds be available to purchase school sites where the Catholic school boards need those facilities.

Our final recommendation reads that as part of the pupil accommodation grants the province continue to provide for the purchase of school sites as required by Catholic boards.

In conclusion, we appreciate the opportunity to appear before the standing committee. Catholic school boards in Ontario have the responsibility of educating approximately one third of the students in Ontario schools.

We are pleased to support government efforts to change the way in which elementary and secondary education is funded. We believe the changes to the way residential and non-residential assessment are used to fund education will provide equity and accountability for both students and taxpayers. We look forward to learning the details of the allocation model by which funds will be distributed to all boards.

Our brief urges the government to fund education as a provincial priority. The new funding model must ensure boards the autonomy they require to address local needs, must affirm the importance of junior kindergarten as part of the regular program and must fund sufficient instructional places in a capital program for school boards. Finally, it must also provide Catholic boards sufficient flexibility to fulfil the unique mission and mandate of our Catholic school system.

The Chair: Thank you, sir. We have approximately five minutes per caucus. We'll start with the government caucus.

Mr Baird: Thank you very much for your presentation and the time you took to put it together. I might make two comments and then ask a question. Part B of your submission with respect to capital as an essential component to the education of our children is certainly one I'm well aware of, in a growing board, the former Carleton board. That's certainly a big issue in my community, and not just in Barr Haven where they're building a high school demonstrably cheaper than it would normally cost due to some very innovative models the Roman Catholic school board has employed. As well, I know in Stittsville they're having an overcrowding situation, so that's certainly a very acute problem and issue to many of us, particularly me in my part of the province. I'm certainly acutely aware of that and appreciate your comments and so I'm going to keep those in mind, as I know my colleagues will as well.

The other thing I noted on page 2 of the executive summary of your report was your support for the new equitable funding model. I wanted to ask you — it's not a surprise; they've been very vocal about it. The Ontario English Catholic Teachers' Association has undertaken the legal challenge of that funding mechanism under the Education Quality Improvement Act. As you outline in your brief, there are some seven or eight places right in the legislation where the rights of Catholic governance are clearly spelled out in the act. Is it the position of your association to support the government in that litigation? Have you taken a position on that?

Mr Daly: We've taken a position, subject to a final analysis of the funding model when it's released in the next few weeks, hopefully, that if it provides in the submission the flexibility and autonomy that we require as well as the equity that it requires, we would be in a position to support that new funding model going forward.

Mr Baird: If you did, what would happen? What would the situation look like? Would we go back to an inequitable funding formula?

Mr Daly: If that funding model didn't proceed? Is that the question?

Mr Baird: No. If the funding model did proceed and yet if the Ontario English Catholic Teachers' Association's legal challenge were to succeed somehow, would you prefer to go to an inequitable funding model?

Mr Daly: No, absolutely not. That's why we've indicated our strong support for the funding model as outlined in the bill. That's clearly, we think, in the best interests of the students within all assessment-poor school systems in the province of Ontario, as well as the teachers who work within those systems.

Mr Baird: So it would be the position of your association not to support the Ontario English Catholic Teachers' Association in its legal challenge?

Mr Daly: If it meets the requirements that I indicated earlier, yes.

Mr Baird: And what, in your judgement, are they?

Mr Daly: That the equity —

Mr Baird: That's guaranteed in legislation

Mr Daly: Yes, I know it is, but until we see that in the final details: the equity, adequacy and the flexibility. If it meets those standards, then we will support the model going forward.

Mr Baird: On equity, it's obviously in the legislation, throughout the legislation, as you point out in your brief. On adequacy and flexibility, what specific nature do you require for your continued support of that bill?

Mr Daly: We outlined in our brief very clearly our conviction that there must be a significant amount of unconditional grants within the funding model to allow Catholic boards to maintain and promote our mission. That would be some form of block funding, and we wait to see that. We believe that will be the case.

Mr Baird: You would disagree, then, with a cap on administration expenses, if we wanted to say there would be a cap on administration expenses at school boards?

Mr Daly: No, we would not. We would not disagree with that, as long as it was a reasonable cap.

Mr Kwinter: I'd just like to get a clarification about your debenture problem. I notice you've got debentures of over $1 billion and it takes $280 million a year to service that. How is that calculated?

Mr Daly: The $1 billion is the total, not just the Catholic boards. That's the total of all boards in the province of Ontario. The $280 million, I assume, not being a finance superintendent, is the principal and interest costs related to carrying those debenture costs each year. That's not just the interest; that would be the principal and the interest.

Mr Kwinter: It just seemed to me that you were paying a usurious rate.

Mr Daly: Oh, no.

Mr Kwinter: Have you had discussions with the ministry about addressing that debenture problem?

Mr Daly: On numerous occasions, yes.

Mr Kwinter: Where do they seem to be coming from? What are they proposing, or are they proposing anything?

Mr Daly: We've had some good discussions with them in terms of the varying impacts on school systems throughout the province and they have committed to us that they are looking at it. I think it's one of the reasons why perhaps the funding model has taken a little longer than some would have liked. It's a significant issue that needs research in terms of coming up with a responsible solution, but I believe we'll see that in the funding model, and they are aware of it.

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Mr Phillips: I'm trying to get a sense of your priority on junior kindergarten. Currently, if the government doesn't change its approach to this, what do you see as the future of junior kindergarten in Ontario, and what is required by the government financially to accommodate your concerns here?

Mr Daly: What we are recommending strongly is that junior kindergarten receive the same level of funding as all other mandated programs in the province of Ontario and that this be included in the grants that boards receive. That's the expectation and the recommendation that we're making. If that were not to be the case, obviously boards would have to make some difficult decisions in terms of, if junior kindergarten, then what not? So hopefully they'll include that and allow boards to make that decision. Currently I believe there's only one Catholic board that does not provide junior kindergarten. All the others do; 28 of the 29 do.

Mr Phillips: You didn't comment on the priority your organization would place on that.

Mr Daly: Very high. It's an extremely high priority in terms of education, and the mission of Catholic education to have children at that young age is crucially important.

Mr Phillips: Can you give us a sense of the unconditional funding that you feel you need within the formula? I'm just trying to get a sense of, when we finally see this formula, what would be seen as acceptable to your organization.

Mr Daly: We have not set a number, obviously, without knowing the details, but our recommendation and discussions that we've had with the minister and ministry officials have been that within the grant that boards receive, a significant component of it must be left to the discretion of the local board to allow for specific situations and local situations that will vary across the province. Every indication from the minister and his staff has been that that's what we'll see, and whether that's in some form of block funding, what we have indicated to him is not to make the funding model so prescriptive that there would be little or no autonomy.

Mr Phillips: I'm always cautious on capital projects because governments of every political stripe try to find creative ways to fund capital, often leasing. There are creative ways of funding capital. The problem is that it's just a different way of borrowing money. You're going to face some accommodation squeezes, I would speculate, in the future. Has your board thought of creative ways of handling capital? Are you leasing schools, for example? I know you use a lot of portable schools, but —

Mr Daly: We don't call that one of the creative ways; that's the least creative way.

Mr Phillips: Necessity or whatever it is, yes. But has your organization explored some of those more creative ways? Is that something we should be looking at, or is that potentially another debt trap for us?

Mr Daly: Yes, it is something that we have looked at as an association, and I know Catholic boards as well as public boards across the province — Mr Baird mentioned the one at Carleton that has proceeded in a creative manner, and there's one in Waterloo, the first in Ontario, if I'm not mistaken, that's a leaseback. I know that we, together with the Waterloo Catholic board, will be ana-

lysing that financial situation very carefully to see if it was in the best interests of the board and that community.

We are exploring all options, but I think your caution is a good one in terms of the long-term financial impacts of some of the creative ways that are being looked at. We need to analyse them very closely, but yes, they are being looked at and some pilot projects are now under way.

The Chair: Thank you. I must interrupt you there. Mr Silipo.

Mr Silipo: One of the issues that has been raised with me with respect to capital funding under the new board structures is that given that we now have across the province fewer boards which cover a larger geographic area, if the government continues through the ministry to apply the traditional way of deciding when a board is entitled to capital dollars on the basis of what space they deem you have available, what you will find is more and more situations where the space that might be available in small chunks or in entire facilities — it tends to be more in small chunks — may be available at the other end of the board's jurisdiction to where you need it. Is that a concern that you're picking up at all from any of your school boards?

Mr Daly: It is in terms of a caution that we have taken forward to the ministry that we accept and support the fact that boards have to make efficient use of the space — clearly that's a given and we support that totally — but within that there have to be distance factors and perhaps some factors unique to a specific community that I'm not aware of here today that will have to be taken into consideration. Distance clearly is one of them. We couldn't suggest in some cases to bus children 10, 20 or 30 miles and call that surplus space.

Mr Silipo: The point that you have made with respect to junior kindergarten, obviously you know that I personally, and we as New Democrats, strongly support that. I don't know whether you were here earlier, but the Ontario Chamber of Commerce is also advocating that position, so who knows? The government may try to play heroes and reinstate something that they've cut before the term is over. We'll see what happens on that. Obviously I think we all understand and appreciate the educational and social value of having that particular program reinstated.

I wanted to ask you a bit more about your comments on the new funding formula. I understand what you were saying around making sure it allows enough flexibility for boards to be able to make decisions about spending in a way that addresses the individual needs, but what I wanted to ask you about was more on some of the fundamentals.

You're clearly saying you support what the government has done so far insofar as it is purporting to be moving to a more "equitable" funding formula. I want to understand more fully to what extent or how much your support for that direction is based on your understanding or position or wish that in fact that be done within, if not the envelope funding that we had, then at least, as you say here today, no further cuts. In other words, is in your mind the principal separated or part of what happens to the funding envelope? Would you see that it would be equitable if in fact what you had at the end of the day was a much smaller funding envelope for the whole education system, and within that what you would see as being some greater sense of more equitable funding? Does that achieve equity, or is the only real way to achieve equity by at least making sure that the present envelope doesn't shrink any more than it has?

Mr Daly: Yes, it's the latter way you've expressed it, and that's that under the current amount spent, those available dollars be distributed equitably throughout the province and that no further cuts take place.

Mr Silipo: From the figures that you have seen or the various kinds of models that you have seen, just within the Catholic school system, what kinds of shifts would you expect to see in terms of boards that are now receiving a certain level of funding from grants and the property taxes? What kind of shifts in funding would you anticipate would take place between boards?

Mr Daly: In terms of dollars and percentages?

Mr Silipo: Yes.

Mr Daly: I don't have with me specific figures, but I know that from the lowest spending boards, whether Catholic or public, there's considerable difference — a 30% or 40% difference — in the amount spent to the highest spending boards in the province. In some cases the changes would be significant from the lowest to the highest, but within a given community, I think on average Catholic boards spend approximately $1,000 less per pupil than their coterminous boards. You could take that as probably the average. But the same would be true — and this is a very important issue that we try to make people aware of — of the lower spending public boards. There are many assessment-poor public boards in the province as well that will benefit by the equitable model. They will gain, as will, we think, all of the Catholic boards.

The Chair: I'm sorry, but I'm going to have to interrupt you there. Thank you very much, Mr Daly. We appreciate your comments and your submission.

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ONTARIO UNDERGRADUATE STUDENT ALLIANCE

The Chair: The next presenter is the Ontario Undergraduate Student Alliance, Mr Martin. Welcome. You have 30 minutes to make your presentation, and what time you don't use, we will attempt to utilize with questions.

Mr Richard Martin: I will attempt to make my remarks somewhat briefer than that.

The Ontario Undergraduate Student Alliance represents 110,000 students at universities across Ontario. We speak to you today on behalf of students at the University of Western Ontario, the University of Windsor, Brock University, the University of Toronto, the University of Waterloo and Wilfrid Laurier University. We appreciate this chance to discuss with you the financial situation of our schools and their students.

Ontario universities receive about 66% of their operating income from the province of Ontario. This has declined from 74% in 1991-92. In 1995 the newly elected government cut operating grant funding to colleges and universities by 15%. To be fair to the current government, cutting funding to Ontario universities is not new, but rather an acceleration of a long-term trend. In 1977-78 university operating grants were almost 8.1% of the total provincial budget. They have now declined to about 4.9%. Though Ontario is perhaps the wealthiest province in Canada, we are dead last, 10th out of 10, in our funding of universities. Even Alberta, despite recent major cuts, still spends 10% more per student than Ontario. Public universities in the United States receive 40% more funding than Ontario schools.

The result of the underfunding of universities is clear. The number of courses available is declining every year, buildings are poorly maintained, staff are overworked, essential facilities such as laboratory equipment and library books are outdated and inadequate, professors retire and are not replaced, and class sizes of 300 to 500 have become increasingly common.

In an effort to help compensate for the drop in government spending, the province has allowed dramatic increases in tuition. Since 1990 tuition fees have risen by 62%. This has led in turn to a huge increase in student debt. In 1990-91 the debt of the average student on graduation was about $9,000. Next year it is expected to reach $25,000.

But I did not come here today to tell you how much less is being spent on education. I came to point out that despite these changes, despite all the grief they have caused, government savings in post-secondary education have been insignificant.

I would like to draw your attention to the chart I have circulated. This is taken from a report to the Senate of Canada made by Mr Terence Young, the former parliamentary assistant to the Minister of Education and Training. It shows a breakdown of provincial spending on post-secondary education between 1995 and 1998. It reflects a 15% cut in operating grants to institutions, but the bottom line is that at the end of this period total spending on this sector had dropped by less than 2%. The chart demonstrates something that should have been axiomatic but that somehow seems to have been forgotten: The more you raise tuition fees, the more you have to spend on student aid.

I believe one reason this has been forgotten has to do with the unrealistic assumptions made by many people with respect to the possibilities of an income-contingent loan repayment system. The essential point of such a plan is that students are given money while at school, and after graduating or leaving school they are asked to pay back their loans as a proportion of their income. The program would be flexible so that those who had low incomes after leaving school, or inconsistent incomes, would not be required at any point to pay back more than they could manage. It would also have the possibility of focusing government subsidies on those who need them most, because it focuses not just, as the current plan does, on how much money one needs while in school, but on one's actual ability to repay that money after graduation.

For these reasons, the Ontario Undergraduate Student Alliance has long been on record as supporting the principle of income contingency. We believe it offers the possibility to make both more fair and equitable spending on student aid. But people on both the left and the right have made unrealistic assumptions about what would be possible with this program. It has been supposed that one could effectively shift a large part of the cost of education on to students and that this kind of loan arrangement would make it possible for them to carry it. I would have to say frankly that I think many students have failed to attack this as vigorously as they might. Many students on the left have simply accepted that this is feasible, and not argued that the plan was a bad idea.

But modelling, and some modelling has already been done by the federal government, will show that these assumptions were simply never realistic. In fact, one of the reasons some of the models which were until recently being considered by the provincial government have now been opposed by all other provinces and by the federal government, and also by the banks — an interesting point — is precisely that these assumptions about how much students could carry under such a regime have been proved to be unrealistic. I think the role of the banks in this discussion is particularly worthy of note. The banks are responsible for administering the loan program. They have a pragmatic approach to how much of a loan any individual can carry and they given stern warnings to the Ontario government that it simply isn't possible for many students to carry the kind of debt load which has been foreseen in some provincial plans.

We return to the chart. This shows the high cost of student aid when one begins to deregulate the system. But this is only, of course, past years. We are now talking about a much more severe kind of deregulation. Exactly what was meant by the recent Treasurer's announcement on this subject is still somewhat unclear, but we do know that a number of university presidents are lobbying hard to be able to set whatever fees they like in most of their programs. The obvious problem, of course, is that if they do this, there are one or two possibilities. Either those fees will be covered by student aid or they will not. If they are not, then we have an obvious problem of accessibility, a situation in which students' ability to attend university will depend very much on their financial background.

But if they are covered by student aid, then it leads to another kind of problem. It means much greater increases in government spending on student assistance. We've seen already how much higher than expected are the results the tuition increases thus far have led to. Each year, spending on student aid has far exceeded the estimates provided by the ministry. Each year, they have had to go back to the Treasurer partway through the year in order to receive more funding to cover the program, and that was with relatively minor increases in tuition, increases of 10% a year typically.

With deregulation, we could see increases far greater than that, and the result could be precisely the opposite of what advocates of privatization have advocated. It could mean that those schools that are most private, in the sense that they are least regulated, and are charging the highest tuition are therefore receiving the greatest amount of government subsidy through the student assistance program. The government has recognized this is a possibility and its intention, at this point, is not to raise loan limits to cover those students who are in deregulated programs. Instead, following a recommendation by the Smith commission last year, it has required that universities set aside 30% of tuition fees above current levels and use that as a means of helping students in financial need.

There are a number of problems with this. First of all, 30% might have been adequate in the past to meet the level of unmet need, and by "unmet need" I mean the need which is recognized as being unmet by the ministry's own rather optimistic calculations. But there is no reason to think that would be enough in an unregulated environment. Obviously, the higher tuition fees go, the more you will have to pay to each student on assistance and the more students will be on assistance. The number of students who receive OSAP has increased by 15% in just the last few years. It will also mean a decrease in the percentage of aid that can be repaid in the long term. We are already seeing debt loads approaching $25,000, and when you begin to calculate the interest on that, the remorselessness of compound interest, you can soon see how many people will find their debts are getting out of hand.

I want, therefore, to urge the members of this committee to support the recommendations taken by the Smith commission last year to restore funding of Ontario universities to at least the national average of our provinces, to make the necessary reforms to student aid, but to make them without making pie in the sky assumptions about how much students can bear under a different regime.

I might close by telling you about an experience I had several weeks ago. I happened to be in a residence building at the University of Toronto when the news was on. There were some 20 people there watching the news. A member of the present government was explaining the need for cuts by saying his government would not allow the next generation of students to be saddled with debt. There was a brief pause and then a burst of laughter. No one had to explain what the problem was here. Obviously, students know about the deficit and we know who's going to deal with it in the long run. We also know we have no hope of doing that without a high-quality and accessible educational system.

I urge the government to take the measures that are necessary to provide adequate funding both to universities and their students to arrest the precipitous decline from both quality and accessibility which has occurred so far.

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The Acting Chair (Mr E.J. Douglas Rollins): Thanks, Mr Martin. We have approximately five minutes per side and we start with the Liberals.

Mr Phillips: That was very articulate. I appreciated it. Can you help paint a picture of how the universities currently are operating and how they operated, let's say, three years ago? My recollection was that tuition fees three years ago were, I don't know, 23% or 24% of the operating cost to the university.

Mr Martin: You would have had to go back a bit farther than that to get numbers that low. I'm not sure exactly. I believe around six or seven years ago it would have been in that range. It has now increased to the point that next year more than 40% of universities' operating budgets will come from tuition fees. Just to put that in context, before the last election the Progressive Conservative Party released a document in which they said they thought it would be fair if students paid 25% of the cost of their education. So we're now about to be paying 40% and there are some people who seem not to think that's enough.

Mr Phillips: I remember that. That's why I thought it must have been 23%, because I thought they were going to move it up to —

Mr Martin: There was actually a mistake. They were dealing with numbers, statistics, a couple of years old at that point. It was already higher than 25% when the last election occurred.

Mr Phillips: So currently students would be covering roughly —

Mr Martin: At the moment it's around 37%. The tuition increases which have already been announced for next year, even if one makes the most conservative assumption about how much of that latitude will be used by universities, would put it over 40%. It's worth noting in this connection that on average private institutions in the United States receive 39% of their funding from tuition.

Mr Phillips: I think we are going down a road at a very fast clip without having any idea where we're going. I know that in many of the US private institutions there are also heavy endowments which provide substantial financial assistance to students that none of our universities come close to matching here.

Your feeling is it could be as much as 40% right now. I also find mildly interesting your comment on the students' debt, that the government recognizes there is a need to provide assistance to some students so they're going to ask the students to contribute a little bit more to provide more assistance to their fellow students. It's an ironic twist on the challenges young people face.

Help me out again with the student support number here of $527 million. Can you define that for me once again, just what that represents?

Mr Martin: This number represents certain assumptions, calculations that the government has made about the interest subsidy which will be given out on this year's loans. I should explain that under the current system students do not pay interest on the loans they receive as long as they are still full-time students. Once they leave school, interest begins to be charged. So there is a cost to the government of subsidizing loans during the period they remain in school, and that's part of this number.

Part of it is for loan forgiveness. At present the system functions in such a way that if you receive more than

$7,000 in a loan in a given year, you do not need to pay back the remainder, which is, one could say, a commonsense way of keeping debt loads under control. Of course it's still possible under this to get $28,000 in debt after a four-year degree. It's also important to realize that that's not covering all the expenses for some students. This government is the first in many years not to have raised loan limits at the same time as increasing tuition, so the amount of unmet need in the system has grown dramatically in the last several years.

The Acting Chair: Thank you. We move now to Mr Lessard of the NDP.

Mr Wayne Lessard (Windsor-Riverside): Thank you very much. I thought the last story you gave in your remarks was an interesting one, that is, that this government seems to be doing everything to ensure that the youth of the future don't get saddled with the debts of previous governments and are doing everything in their power to eliminate the deficit, but in doing so, they're asking young people who are students and other people who are really least able to handle it to shoulder that debt, in my opinion. And in order to try to accommodate students who are going to be shouldering that debt, they've announced that they're looking at an income-contingent repayment program. You referred to that to some extent in your remarks, said that the banks don't support that; however, your organization does seem to support it, but you were very cautious in that support. I was wondering if you could elaborate on some of that caution. It appears to me that what this is going to do is stretch out the payments for students who are unable to make substantial payments on their loans, and therefore those students who have the lowest income will end up having to pay the most back for their education.

Mr Martin: You certainly raise a valid point, and this has been raised by a number of people in the current debate. Income-contingent loans could mean a lot of different things. There are a lot of different ways of constructing a system in which there is some connection between students' payments after graduation and their income. Certainly OUSA has supported the principle of making some connection, but we would not support every possible version of such a system, nor would the banks, nor would other student groups.

The key point, I think, is that you need to make a distinction between short-term need and long-term need. There needs to be some recognition that people may need substantial amounts of money to attend university and yet be able to pay back all or most of that after they leave; in other cases, students will need to borrow more than it will ever be possible for them to pay back, particularly when the effects of interest are taken into account. In order to be either fair or efficient, we need to have a student aid system that recognizes that distinction, which the current system does not.

But I would suggest a further distinction between an ICLR program which simply makes a link to income in the sense that you would be given more time to pay off your debt and one which actually targets subsidies to those who are most in need of them. It's the latter form of ICLR which we would support, and of course the subsidies would need to be adequate. Details such as interest rates, the amount of money you would need to make before you would have to begin making payments, the total number of years you would have to make payments before outstanding debt would be forgiven — all of these things are crucial details.

I believe the federal government will shortly be announcing a number of measures which they have decided to call income-sensitive in order to avoid this particular debate, but from what I've heard of them they seem to me to be very pragmatic and sensible. They are looking at income-based remissions. The key idea here is that students would be given a grant, in effect, after they've graduated. At some length of time after they've graduated — I'm not sure whether it'll be two years or five years, something of that sort — grants will be given to those whose high debt-to-income ratio makes it seem that their current debt load is unmanageable. This meets our criterion of focusing subsidies on the people who really need them. It also meets the criterion that ICLR is not simply a way of eliminating subsidies; it's a way of focusing them where they're needed. That seems to us a useful approach to take.

But the idea that if you have an income-contingent loan plan, then you no longer have to invest any money in subsidies for student aid is simply unrealistic. Again, the banks have been very clear about that. They're not interested in the plan, partly because they're not interested in having large numbers of students who are unable to pay their loans.

1520

Mr Lessard: Have you been involved in any discussions with the current government about any of the proposals they're considering? They said they're expecting this to come into effect in September.

Mr Martin: We have not yet seen any details about a plan for this September. I would have to say this is a great concern for us. We have been given promises by the minister that we will be consulted, but we have not yet been given any real information about what the government's plans are or about what it's considering. We certainly feel that we could play a constructive role in those discussions and would like to be more involved in them.

Mr Lessard: One of the things you referred to was the privatization of post-secondary education, and I want to take that one step further, not just privatization in the sense that students are going to be paying for the entire cost, perhaps, in some types of programs, but perhaps the corporatization of universities. If increased tuitions are not going to be able to be met by students and therefore operating costs by universities aren't going to be met, are universities going to be looking for other sources for that funding and to the corporate sector, and does that cause you some concern?

Mr Martin: I think this is something one has to be wary about. I would say that at this point we have not reached a situation in which universities have compro-

mised their mission by accepting government support, but certainly the pressure is increasing for them to do that. So it is a concern. To take the other side of it, there are a number of major American universities which receive very substantial corporate support, the kind of corporate support our schools can only dream of, and I think there's an argument to be made that that has actually given them more freedom. Places like Harvard and Yale are rich enough that they can turn down a grant that comes with too many strings attached.

The Acting Chair: Thank you very much, Mr Lessard. You've run out of time. Now to the government side.

Mr Baird: I enjoyed your presentation, particularly your comment at the end about students knowing about the deficit and that very much it will be the young people of today who are paying off the accumulated debt that previous governments of all three political parties have built up. In addition, I'm certainly well aware of rising tuition rates. In my four years in university, I can recall that I had double-digit increases in the first two years, and under my colleagues in the official opposition I was told they were going to be eliminated, tuition was going to disappear, so it would be okay for my third and fourth year. But of course they continued to go up at a double-digit rate for me, so I certainly appreciate that.

You mentioned an income-contingent loan repayment plan. I know that's something your organization, going back many years, has been supporting. You're one of the early supporters of it. In an income-contingent loan repayment plan, you talked about unrealistic assumptions. Would you have a problem with a differentiated tuition policy, in conjunction with an income-contingent loan repayment plan, that allowed those fields — Algonquin College in my constituency has one of the programs for dental hygienists. They graduate 36 a year, and they go on to making more than $35,000 a year. Upwards of 90% or 95% get jobs within six months, So it's a very good program that leads right into the work world. Someone said, "Listen, perhaps those folks could pay an extra $500 or $1,000 a year towards the cost of their education," freeing up money for other areas.

Queen's University in Kingston has deregulated and privatized their MBA program. It's $20,000 a year and you get a money-back guarantee. If you can't get a job making at least $50,000, I think it is, you don't have to repay the loan. So it's almost their own income-contingent loan repayment plan. Are those some things your group would be willing to consider and look at?

Mr Martin: As you know, this is no longer merely a hypothetical question; it has actually begun to occur. There are executive MBA programs at more than one institution in Ontario now in which students pay the full cost of the tuition; or rather, it's more often the case that the companies they work for pay the full cost. I think executive MBA programs are probably in a very special category. I'm not sure how far one could go in extending the same principles elsewhere.

The recent announcement by the Treasurer included the statement that universities would be allowed to charge what they want for certain programs which led to high incomes and virtual guarantees of employment after graduation. One can see the sense in this. I can also see that already university presidents are scrambling to interpret it as broadly as possible. I know that the president at Western announced to his board recently that he planned to privatize or to deregulate a long list of programs, including music, for example, which does have a high cost of delivery but certainly does not lead, on average, to a high income. This is the sort of thing that concerns us most, that that sort of pressure is going to lead to programs that really don't lead to high incomes.

It's also worth noting that even with programs like medicine or law, you're not just looking at the cost of that particular program. You normally don't get into these programs until you've already got a degree and until you've already got a debt load, in many cases. So when you're making these calculations, you have to look at the total cost of getting that degree, which might be seven or eight years in university.

Mr Baird: I just wanted to conclude with a comment. I guess the challenge is, how can you refocus? Youth unemployment is a real concern for everyone. How do we make the universities and the colleges change champions in terms of reallocating their resources into those areas of the economy that are going unfilled — the high-tech, computers, computer programming, computer engineering, electrical engineering — those type of programs where there's a real shortage of jobs, particularly in my part of the province? How do we allow them to re-engineer themselves as universities? Right now, it pays them to graduate more arts and science graduates and not to respond to where maybe the demand is, not just among potential students but the labour market as well. I know that's a real concern.

Mr Martin: This is an issue. Of course, as I'm sure you know, the recent announcement tried to deal with that issue by saying that tuition increases could be justified where there was a case for producing more people in a certain program because of demand for jobs in that area, but there's also a certain twist to this. There's an obvious irony in thinking that you will encourage more people go to into a certain program by raising the tuition fees.

Mr Baird: As well as by opening more spots. I know in computers in Ottawa-Carleton there are upwards of 3,000 jobs going unfilled. Nortel is hiring 5,000 people in the next four years and they just can't find them fast enough. If we could grow those programs at local universities and even the University of Waterloo to help meet that demand, that would be part of the answer. It's really not in the universities' interests to re-engineer themselves and to fill those spots, because they're a lot more expensive and they get the same tuition for them.

Mr Martin: Certainly I think you raise a very important point. The funding formula obviously creates certain incentives and certain disincentives and it's worth reexamining from time to time whether these are taking us in the direction we ought to go. We don't really have time to get into that in any detail here today, but we did actually

produce a paper which dealt with that a number of months ago and suggested certain changes in the funding formula that might be appropriate.

The Acting Chair: Thank you, Mr Martin, for your presentation. It's been well received.

ASSOCIATION OF CANADIAN PUBLISHERS

The Acting Chair: I call the next person, Stoddart Publishing Co, Jack Stoddart, chairperson.

Mr Jack Stoddart: Thank you very much for the invitation to present today. I'm not sure whether the invitation was to cover all the cultural industries in the province or book publishing, so I'll try and do both, but it's kind of a broad scale.

First of all, the cultural industries are not the arts: the ballet, the opera, the symphony and the theatre. They're really the entrepreneurial companies, and it's the industry that takes creative material and makes commercial properties — ie, books, records, film, magazines — for public and institutional consumption. We create employment and our products create sales in the billions of dollars in Canada. It's a very significant portion of the business that's done in this country. Jobs tend to be high grade and they create wealth in this province.

We produce commercial materials that, because of small markets, the specialized subjects, sometimes require assistance. That's where the Ontario Arts Council, among others, come in and play an important part in our industries.

Jobs in the cultural industries are good jobs but they're also portable. You think of the number of people who have moved to Hollywood as actors; that's an example. On the other hand, when you get the infrastructure right for an industry, you repatriate or keep those people in Canada or you develop a lot of new talent. It's no coincidence that Toronto is known as Hollywood North and we've earned that reputation as the number two producer of films in this country. When you have the infrastructure right, you often can create a whole lot of employment and wealth in a province and we've done it well here.

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Education and specialized training are very important to our industries, and in this case our community colleges and universities have played a very important part, along with institutions such as the CBC and TVO, in the training of people in the creative and technical abilities for our industries.

Creators' incomes are usually erratic. If you think of an author, often they will write one year with no income, they will be published perhaps the next year and then it will be three years before they publish again. If their income off the writing of a book was $20,000 or $50,000, almost all that income comes into one year, so then there is very little spread.

This point was made recently with the federal equivalent of this meeting today. It's in the new recommendation. There is a copy attached to this presentation for the federal tax system, that they will elongate the time of averaging for tax purposes for artists and writers and creators in general.

Ontario is by far the leading developer of wealth in Canadian cultural products and our tax base reflects that. We pay a lot of tax in this province. We would, however, be much more successful if we encouraged, by tax means probably, creators from around the world to settle in this great province. It is something that Ireland did many, many years ago for writers and they developed a huge array of writers who moved to Ireland, for tax reasons, I will admit, but created a real base of talent in that country. Canada and Toronto in particular are so well positioned for exploiting the North American market and having a better tax base from these people that I think it might be an idea worth exploring.

The recommendations on this part of it are to give the creators a fairer tax system by using a longer income averaging system, and to investigate the possibility of a tax system to attract international authors and cultural industries to take up residence here and pay their taxes here rather than primarily in the United States, which does have a lower tax rate.

I am the chairman of General and Stoddart Publishing and the president of the Association of Canadian Publishers. In book publishing we do well over $2 billion a year in sales as an industry; not as a company — I wish it were — but as an industry.

Canadian authors make up over 30% of those sales, however, and that's really quite an achievement. On the film side, you see 2% of film time is Canadian production and you see magazines etc. Nobody comes close to that 30%. Our writers have stepped up and done very, very well in this country.

More important, the consumer who makes the choice out in the market has chosen to buy Canadian and that's a huge change from 15 and 20 years ago, when it was probably 3% to 5%. We've had a great success in developing our writers and the acceptance of the materials that we publish.

The Ontario government, through the support of the Ontario Arts Council, has helped to create a vigorous and successful industrial base, among other programs, of course, that previous governments have had. We've been very successful in developing our cultural base as well.

I am sorry that Marilyn had to leave, but the new book publishing tax credit for first-time authors is a good example of a tax system that was put in place in the last budget and is just coming into effect now. We're very positive on this. We think it was a great step forward, in our times of restraint, to use the tax system to develop the publishing of first-time authors. I think it will work very, very well.

Last year they also put into place a book export program, which was to develop the selling of Canadian books to the US market. We're sitting on the doorstep obviously of a huge, huge market with the same language, by and large. Unfortunately, it was only a one-year program and I don't think you can develop export on a one-year, one-

time basis. But it was an imaginative program and is having an effect presently.

Our recommendation is that we continue the book publishing tax credit system, which I believe is scheduled to continue, and reintroduce the export initiative for a minimum five-year program. It takes that long to develop foreign markets, but that market is so significant that the income to Canadian operating companies would be very substantial.

I would recommend a closer working relationship with the department of heritage, at the federal government level, in the development of programs might be beneficial. Often there is duplication or an awful lot of research goes on that is really duplication, so I think a closer working relationship with this, being by far the largest province as far as book production and income would be concerned.

I also suggest, and perhaps there would be questions later — I won't go into detail at this point in time — there is a need for the publishing industry to get new investment. We don't make enough to achieve reinvestment within our own industry, and an equity tax program similar to what they use in the mining depletion allowance to build the mining industry or in the software development programs over the last five years would be a very interesting thing for all cultural industries, not just for book publishing, and I think it would be well spent and a good move forward.

I'm going to touch on education as it applies to book publishing, as opposed to education as education. If I could just give you a couple of minutes of background, starting around 1910 the provincial government wrote the textbooks, or the employees, I guess, of the government wrote the textbooks, and retailers such as Eaton's manufactured and sold those textbooks to the public. In the 1930s Circular 14 was passed, so that the provincial government now wrote the curriculum and publishers competed by publishing books suited to the curriculum. Circular 14 mandated Canadian authorship and production and these books were given preference over foreign editions or books. Parents bought the needed textbooks and Ontario built the best educational system in Canada which was at that time, for many of those years, superior to that of most of the US states as well.

In the 1960s the province moved from parent-purchased to government-supplied texts as part of a child's education. The province supplied the funding of the school board after the school board had selected from the Circular 14 list. In the early 1980s, however, the government ceased paying for textbooks directly and the school boards started to fund some of the textbook purchases and to make do with old text in order to pay escalating overhead costs and teachers' salaries.

Students are working primarily, today in our schools, with five-to-10-year-old textbooks or photocopies of parts of books and teachers' notes that school boards have cobbled together for learning materials. Today Ontario spends approximately $12 a student on learning materials, books and audiovisual and all that, compared to $40 per student mandated in Alberta and $45 in Newfoundland. There's a paper attached which gives further documentation, including some US examples where the spending is substantially higher.

Unfortunately, our educational system today is considered at the low end of the achievement scale in Canada, and I think that's something any government of Ontario has to address. I know the current one has strong opinions on how to do that.

I'd ask, what good are modern facilities and good teachers if a third pillar of education, learning materials, is out of date or is a hodgepodge of information? You just can't run a massive school system and have a good education system and leave it up to old textbooks and photocopies of teachers' materials.

Recommendations: We recommend that the province quickly mandate that a given percentage or a per student dollar allocation of funding be spent on learning materials so that we can start to rebuild the prominent position we once had as a province in education and so that our students, our children, have a fair and good education.

There's also a major review of the education system going on, as people are aware, and we hope in that model, whenever it comes out, that something similar to Circular 14 is retained for both educational and financial reasons. Clearly, the use of Circular 14 with Canadian manufacturing and Canadian authorship has meant untold thousands of jobs and millions and millions of dollars, on an annual basis, in taxation and employment. That's been a very important part in building this province over the years.

I'd like to touch on TVO for just a moment. It is a valuable and important contributor to our education system and will be even more important in the future. The ability of TVO to produce quality video and digital education programs I hope is understood. As the world moves more to electronic educational materials, TVO is positioned not only to serve Ontario students well but to commercially exploit the investment that Ontario has already. made.

Our recommendation is that TVO continue to receive sufficient funding to enable it to enter the next millennium as a world leader in educational programming.

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In the last part I would like to comment on the MAI, which may seem funny in the budget process, but I don't believe it is. I don't think any financial review or budget would be appropriate this year without considering the effect of the MAI on our economic future and on the ability of the government to make policy or laws that are binding.

The MAI will clearly reduce competition and free enterprise in Ontario and will be of benefit only to a very small handful of global corporations. Corporate taxation for the province will be decreased, perhaps not in the first year of it but certainly on a longer-term basis, two and three years from now.

Global corporations pay tax where taxation is least. They brag about it. They adjust their books so that they pay tax where they don't have to pay as much. Ontario

doesn't have the lowest tax rate, and that's a concern in this question of, are we going to go with global corporations or are we going to go with Canadian corporations?

They also go with their employment to areas of lower income levels, and again Ontario tends to have a relatively — although with the dollar today it's a little better balanced, another situation.

The MAI will also deplete our ability as a province to set and enforce elements of employment standards, environmental standards, fair and effective taxation and regulation of how business is done in this province. All these issues will affect the economic ability and taxation ability of any provincial government.

I was in Ottawa last week. The environment committee of the House of Commons had a review of the MAI situation. As you know, that is also an all-party committee, and what was absolutely astounding was that no party walked out of that meeting that wasn't up in arms against what they heard about the MAI. The strongest opposers of it were the Reform Party. The Liberals on the committee and who attended, the language they were using was — it's something that very few people have in-depth knowledge of. We're being told by bureaucrats: "Oh, it's fine. Don't worry about it." I would beg to differ.

The recommendation is that the provincial government quickly set up a task force or subcommittee to investigate the effect of the proposed MAI treaty on the province and to make recommendations quickly for use in the budget process.

In conclusion, you've seen a huge building of the cultural industries, including book publishing, film and sound recording, in the last decade, maybe 20 years. We're one of the leaders in the world, actually, certainly as a city and as a province, in what we have achieved in all those categories. Unfortunately, an awful lot of the tax money doesn't stay in this province. For their American sales, the artists all register in the States with their corporations, so you don't see that tax money. There are ways that the cultural industries, I think if we looked at the tax system properly, and I'm not talking about incentives only — but with fair play this province could raise a huge amount more taxation on the artists that are both Canadian and Ontarian. Since 90% of all the cultural industries are based in Toronto — or Ontario, but primarily in Toronto — we've got a big vested interest in what happens on these issues. Thank you.

The Chair: Thank you very much, Mr Stoddart. We'll start with the NDP.

Mr Silipo: Thank you very much, Mr Stoddart, for a very comprehensive presentation. Let me start with the last issue you addressed before your conclusion, and that is the MAI, because it is something I don't think we have even begun to give the kind of attention it needs in terms of the implications it might have for us here as an Ontario jurisdiction, so I appreciate your suggestion to us, your recommendation that we look at some kind of committee or task force to take a look at this. That's something, hopefully, we'll be able to pursue.

To come back from there to some of the other specific points you made, first of all, with respect to your comments on education, the point you made about textbooks, that it's one of the major pieces around spending that we need to fix, I was very much interested in your comments around the proportions or the per student amounts that are spent across the country. When we look at what's happening to the funding of education, we can see that the textbook example you've given us is in fact typical of the overall expenditure. On a per capita basis, we spend less on education than does Alberta, for example, which I gather is at something like 29% of public expenditures; we spend at around 16% of overall public expenditures. Is it fair to say then that what would be needed, in your view, is a real investment by government, particularly, as you've said here, in the textbook area, which I know you're primarily addressing, but perhaps as part of that in the broader area of education?

Mr Stoddart: There are also some backup sheets that give a lot of other information having to do with different states, and then there's an interesting article attached from something called the Educational Marketer, which is a trade paper of the educational — and you'll see the same questions being raised in the United States and state by state. When you lose your textbooks, when you lose the grounding in a large educational system of having common learning materials for students, you really lose the direction. When we decentralize the control and change the funding to the municipality or to the school boards away from the central, we've really lost that control. If we don't find a way to get that back, I think we waste a lot of teachers' time.

School boards now hire the teachers for the summer to write the texts for the students in the fall. It's an awful waste of time having 52 school boards or however many it is all writing new textbooks every year. It's bizarre. If the books are too much, maybe the government and the industry have to sit down and say, how can we do this more efficiently? I'm sure there are other ways to do it than the way it's being done.

The second thing I would add is that the pressure now seems to be to go and get American consultants to tell us how to run our educational system, and their recommendation will almost universally be to go to American textbooks that are tried and true and probably cheaper today. That concerns me as a citizen as much as being in the publishing industry. Our textbooks over the years represent the makeup of this province, the racial makeup etc; they represent the learning curve we want our students to go through. You ensure that teachers follow curriculum and make sure that students learn what they have to if they have to follow a curriculum.

The easiest way to do it is that if you only have three or four textbooks that fit that curriculum that are approved, you know that not everybody's going to be on the same page on the same day, but at the end of the year everybody's going to have covered that same material. I would defy anybody to prove that's happening today under the system it's in. It's been a depleting system for 20 years, so

it's no one government or one party that's caused it, but the problem is clearly here now and we've got to address it.

1550

Mr Arnott: Thank you, Mr Stoddart, for coming in today and for the comprehensive presentation you've given us. You mentioned that the book publishing tax credit for first-time authors is being very beneficial, at least —

Mr Stoddart: It will be.

Mr Arnott: It will be very beneficial. You gave credit to Marilyn Mushinski for initiating that proposal. How will it benefit our writers in Ontario?

Mr Stoddart: I think it was partly a response to the closing of Coach House and the closing of the ODC program of financial assistance etc. One of the concerns the industry raised at the time was that the least profitable books you publish are first-time authors. If you've got a choice of doing authors who can make you some money or authors who maybe deserve to be published but — you know, for the first two or three books, they're just never going to make money. Sometimes you have to do that developmental work. The first book's often the hardest, and that's why I think it was well targeted. Nobody's going to get rich on this program. It doesn't discriminate against anybody. Authors have already been published and already had their first shot at it. I think it's a very positive step and I think it was a good move. I know the current minister has taken it forward quickly and put it in place.

Mr Arnott: Thank you very much for that.

You mentioned what they're doing in Ireland to try to encourage writers to move there from abroad. What exactly are they doing? They're setting preferential tax rates specifically for —

Mr Stoddart: I'm not sure their exact model is what we want, but basically they said to the creators, in this case the writers, "If you want to come and live in Ireland and be part of a cultural base" — it's a cumulative thing: The more films you do, the more you're going to do, the more great writers you have. It's no wonder that now probably four or five of the great women writers live in this country, because over the last 25 years those have been developed under a lot of our programs. That's what Ireland did many years ago, but they used the tax base and they said, "You can do your worldwide income here." The problem is you also have to move there on a permanent basis. Not everybody wanted to live in Ireland; many did. It helped create a cultural milieu that was great.

I think Toronto is a wonderful place to build an entertainment or cultural enterprise out of. Our access to the US market is terrific. I really think we could attract an awful lot of artists, writers and performers to have their base of operation in Canada, with the right tax situation. I don't think it's going to cost the province or the country a thing, but it could add greatly to what we have. That was the example.

Mr Arnott: Like Mr Silipo I was concerned when I learned that in Ontario we're only spending approximately $12 per student on elementary textbooks and $18 for secondary student textbooks. When you compare that to various other provinces and states, it seems very low. I guess it underlines what the government has been saying for two and a half years, that we have to try to find ways to eliminate waste and administrative overlap in our education system in order to drive the resources into the classroom. Certainly, that has been our objective with many of the changes we've undertaken. I think the government would agree with you that more work needs to be done in this respect.

Mr Stoddart: I think the key to it, though, is if you just leave it and hope it happens, it won't. You can look state by state or province by province. When there haven't been mandated spending levels or a percentage of the budget that's absolutely firm, then when a school board has the choice between raising salaries or buying the textbooks, they will almost invariably raise the salaries because they're looking at that person day by day. If there is no choice, what you will do is build the learning materials, one of the three bases of education, back into the system.

I don't think our students should be using five-, 10-, and 15-year-old textbooks. That's atrocious. Would you read books that were published 10 years ago, or watch television programming or whatever? This is our educational system. If people don't believe that's true, we will put lots of documentation on the table that it is true too many times in too broad a scope. We have to do something about it, and that does take money.

Mr Kwinter: Mr Stoddart, I appreciate your presentation and certainly support your support for the cultural industries. I happen to have a daughter, by the way, who is a first-time author. The book is being published in two weeks.

Mr Stoddart: Congratulations.

Mr Kwinter: Not only is she a first-time author, the first book she wrote, the first publisher she went to picked it up and is publishing it in Canada, the United States and the UK, so that's pretty good.

Having said all of that, I am a little concerned about some of the things you're advocating. Not that I don't agree, but I think we're into a totally different era. I have a four-year-old grandson. He comes out to the house, sits down, turns on my computer, gets the Internet and starts doing things. I look at him and I say: "What is this guy? Is he a reincarnated midget or something? How can he do all of these things?" All of these kids are doing exactly the same thing. To me, I hate to say this, but I think the role of the textbook is going to disappear. It's just a matter of time when teachers will have everybody at a computer, everyone will be at a monitor. They will get their material that's produced by TVO or by anywhere else that it's produced. It will change, it'll be animated, it will have all kinds of things, and that's where they'll do their reading. I don't know whether you feel that's going to happen or you think this is pie in the sky, but I've been around long enough to see the transition, to see what people are doing with computers in the classroom and at home, and it's

nothing short of revolutionary. Do you have any comments on that?

Mr Stoddart: Yes. Let me give you an example. When radio came out it was going to kill reading, and when television came out it was going to kill radio, and when computers — with every new generation of entertainment or learning material, technology, it's always said that it's going to wipe out reading. Well, we're stronger than we've ever been. As a world — the reading levels — you have to read, and read well.

I deliberately used the words "learning materials" as opposed to "books." I think there are some categories of learning materials that are electronic or digital or whatever word you want to use — I think there are areas of that that are absolutely true.

On the other hand, there are an awful lot of them where we don't believe it is. There has been a fair amount of study done in some of the US states where they went very extensively into computers four and five years ago. BC did several pilot projects in computer learning. IBM and Microsoft, all kinds of people, just put whole schools of computers in for nothing; just go and test it and whatever. The results are really not very good. I'm a little baffled. Maybe we haven't learned how to use some of this technology properly. Maybe teachers don't know how to use the technology. Maybe the teachers are too old to learn how to use it. When your kids teach you how to use the computer, maybe it tells you a little bit about it.

The bottom line is I would bet that for the next decade at least books will be the primary learning material that we'll go through. If we ramp up to more digital computer screen usage, so be it. I don't have any problem because publishers are into that business as well. It always seems these revolutions take much longer than everybody thought. Computers were supposed to dominate our lives in the 1960s. Well, they are in the 1990s.

All the statistical data I'm seeing — I think there's some attached in that article. Because that was part of two articles, I'm not 100% sure which is in there. It touches on that and indicates there's been a lot of great disappointment in the use of computers in the school environment.

If you go all one way it's wrong; if you go all the other way it's wrong. In certain ways they're great learning tools, but if you try and teach history, for instance, or reading or mathematics, there are some really big questions as to the success they've had. As I said, it may be the program; it may be the software; it may be that we haven't learned how to use the programming properly.

To go that whole revolution of going all computers for teaching materials, you'd probably need a lot fewer teachers as well to do that. The investment for our province is going to be so huge in the next decade. The use of textbooks is a very cheap cost by comparison, until we prove the textbooks don't do the jobs in the vast majority of categories that we teach in elementary and high school. I think computers in university are far more useful.

For the kids growing up today, the kids who are, let's say, five or under, computers are what books were to us when we grew up. I think that's the generation we've got to start paying attention to. I don't think that at high school level today all the kids use computers. It's not as ingrained as some other things. Until we teach the teachers how to teach with electronics, we've got a problem with it if we spend fortunes on it. I don't think we'll get a good return on it.

The Chair: Sir, I'm going to have to interrupt you there. I thank you very much for your thought-provoking presentation.

1600

LAURA PIATKOWSKI

The Chair: The next presenter is Mrs Laura Piatkowski. Welcome.

Mrs Laura Piatkowski: Thank you very much. I actually was going to start my presentation with "ladies and gentlemen," but there are no ladies on this. Gentlemen of the committee of pre-budget consultations, my name is Laura Piatkowski and I'm here to speak to you on several budget issues.

The first of these issues is the cost to the taxpayer for an unneeded, unnecessary and costly health procedure: abortion. As you may or may not know, this procedure is an elective surgery whose only interest is to eliminate the child in the woman's womb. Under the Canada Health Act, the province has the option of not funding these operations. As pregnancy is not an illness or disease, these surgeries are not necessary. During the previous government's tenure, not only abortions were funded, but the clinics outside of hospitals and the doctors — abortionists — who worked in them. The cost in 1993 was a total of $25,450,680 for 45,000 abortions. That year, the Minister of Health, the Honourable Jacqueline Alvarez, gave $50,000 to Dr Morgentaler to train doctors in this procedure. When I asked about this at the town meeting in Brampton sponsored by the MPPs for Brampton, the Honourable Tony Clement and Joe Spina, they said the government was not training doctors of abortion. Maybe you can check if this is still a part of the abortion funding. I do hate being lied to on so important an issue. Every child is a gift from God. We, the people of Ontario, are paying $25 million to return that gift unopened, and we cheat ourselves of a child's potential.

To put the cost in perspective, I will give you a comparison from the budget of 1997. Under the title "Supporting Safe Communities," the minister responsible for women's issues will receive $27 million for four years to break the cycle of violence, but violence by abortion receives $25 million a year each year for the next four. Another comparison is in investing in jobs for young people to get needed work experience and income: $6 million to help 40,000 young people, but $25 million on 45,000 abortions each year and the loss of our future, as our children are our future.

I know health care funding exceeds $17.8 billion, so $25 million may seem like a small amount, but the money could be spent on nurses in hospitals so patients would not be in the hallways because of staff shortages. Those who

argue that most people either favour abortion or are indifferent because of apathy are the same people who do not wish to pay for them. Their attitude is, "It is her decision, and if she wants an abortion, she, not the taxpayer, should pay for it."

The $25 million does not include the health cost of complications from abortions. Immediate complications could be haemorrhaging, infections and perforation of the uterus. By the way, abortionists send these patients to their own doctors and/or hospitals for treatment, with no follow-up from them. I guess it reduces their cost of operation and liabilities. It also doesn't cover the cost of future health risks such as breast cancer, tubal pregnancy, sterility — which sometimes leads to in vitro fertilization — and the mental health aspects of guilt, depression and possible suicide.

Another budget item concerning the abortion issue is the prosecution of conscientious objectors to abortion. The initial cost of the injunction against these persons was $778,000 by the NDP government. However, this government is spending money each year on the continuing prosecution of these people. At issue as well is the freedom of speech being denied those views that do not agree with the killing of the unborn. I thought a difference of opinion was what made us unique in the tolerance of a free society. Abortion, however, being a profitable business, cannot tolerate the competition of those who believe in the sanctity of life from conception to natural death, or at least that is my perception of this issue.

The next issue I wish to address is the funding of Catholic schools in Ontario. Because of the recent rulings in Ottawa regarding Newfoundland and Quebec, I believe the government of Ontario will try to eliminate the two-school system. However, the education of our children by teaching Christian values as part of but not separate from their lessons each day will go a long way in saving money for the government. The argument that the cost is too great to maintain a two-school system depends on your belief in a God-oriented or a secular education. When God is taken out of the schools and parents are forced to work outside the home to pay for a market-driven economy, the children suffer. They lose their sense of right and wrong, their respect for themselves and other people and the property of other people, have low self-esteem, and feel dispossessed by society. The cost in terms of help for these children will outweigh any cost savings in the education budget.

Why are we considering having a curriculum for our schools set by persons in the United States? Are we so concerned with the mighty dollar that we allow another country to set our lessons? Are there no Canadian scholars, educators or persons capable of setting Canadian courses for Ontario? We need to set our priorities in this endeavour and sell Canada — its history, geography, arts and sciences — not sell out our children's minds to American values.

The next issue is gambling casinos and video lottery terminals. Gambling is as addictive as drugs and alcohol, and governments are the biggest addicts. They are promoter, regulator and beneficiary of gambling. They set up clinics and resources for prevention and treatment of addicted gamblers, but this addiction will escalate beyond government projections. The introduction of VLTs and their easy access will lead to an increase in use as a recreational activity, with increasing numbers becoming victims as pathological gamblers.

When Premier Harris was in opposition, he was against gambling on the principle that it would be detrimental to families and communities. Now he is pushing for more casinos in places where they were rejected by the communities. The coercion used by the Minister of Consumer and Commercial Relations, the Honourable David Tsubouchi, to impose casinos on communities shows how addicted the government is to easy money. To say communities will benefit is an excuse to put casinos and VLTs in places where entertainment dollars are scarce, and could ruin local economies. Please rethink this imposition of a tax on the poor who feel they need to try for a jackpot because they cannot afford the tax incentives given to the upper middle class and corporate business, like RRSPs, capital gains relief and tax deferrals.

The last issue I wish to address is the market-driven economy. Banks, corporations, doctors, lawyers and sports figures all say they charge what the market can bear. The government seems to agree with that statement. They are asking us to believe we are better off than before. Well, look around and smell the coffee, for there are more people now who live in poverty, are homeless, unemployed and just getting by than ever before. Obscene salaries of executives and professionals and high corporate and bank profits are weighing down the middle class. Governments are, or were, the voice of the people, but no longer. High profits and tax shelters for the 5% of people earning $250,000 or more are seen as the uncaring society that hoards its wealth allows people to starve in a land of plenty. May your budget give more to people in need and less to those who can afford a tax increase. I applaud the government for its 30% tax cut and hope they can see their way to help those still in need.

Thank you for your time and attention, and I pray God will guide you in your deliberations on the budget. Respectfully submitted.

The Chair: Thank you very much, Mrs Piatkowski. We have approximately one minute per caucus, and we'll start with the government.

1610

Mr Jim Brown (Scarborough West): Thank you very much for coming and drawing attention to an important issue, which is the abortion issue and the amount of money that's spent on abortion. I'd like to tell you that there are many people in the government who agree with you on this issue, although you seem to be a little cynical about that. There are people who agree with you.

Mrs Piatkowski: I actually put a petition that was sent to the Legislature and was read on the last day before the break, and it was concerning the abortion funding issue.

Mr Jim Brown: I'm glad you brought it to our attention and I hope you will keep on bringing it to the attention

of government, both this government and any future government.

Mr Kwinter: I just wanted to let you know that earlier this afternoon we had a presentation from the Ontario Catholic School Trustees' Association and they certainly seemed to be supportive of what was being done for them in the education field. I understand your concerns, but it seems to me that they seem to think the problem is addressed. I don't think they feel that they are at risk. They want more funding, as everybody else does, but I don't think the basic problem is of concern to them. But I appreciate your comments, I appreciate your raising these issues with us, and I thank you for it.

Mr Silipo: Mrs Piatkowski, I guess just one question. On the last comment that you make in your brief around the tax cut in terms of your support for what the government is doing, and that's obviously fine and fair, do you also support the way in which the government has gone about implementing their tax cut? By that I mean the fact that when you look at the taxpayers across the province, half the taxpayers in Ontario earn under $33,000. That half of the taxpayers gets about $598 million, or proportionately 17% of the value of the tax cut. On the other hand, the top proportion of taxpayers, the top 3%, people who are making over $100,000, get 18% of the money. Does that sound like that's the fairest way to apply the tax cut?

Mrs Piatkowski: It probably wasn't a fair way to apply it, but I think they felt they had to show faith with everybody and decided that this was the best way to do it. I don't agree with some of it, but at least they were willing to try to make it more comfortable for those — that everybody could use it.

The Chair: Thank you very much for your presentation, Mrs Piatkowski.

WALTER PITMAN

The Chair: The next presenter is Mr Walter Pitman. Thank you for coming, and welcome.

Mr Walter Pitman: First, thank you for this opportunity of speaking to this pre-budget consultation. I really have only one story to tell. I represent a group of people who have devised a campaign against child poverty. It's led by Rabbi Arthur Bielfeld and his congregation as rabbi at Temple Emanu-El, joined by the congregation at Holy Blossom and at Lawrence Park Community Church. The idea is to get a very large number of people — it's several hundred now — who are prepared to pledge that they will return their tax cut to in fact engage programs to deal with, you might say, the effects of child poverty, whether it be through the MAZON organization in the Jewish community or through the United Appeal beyond that.

We realize this can do very little, but it seems to me that at this point in time this committee is dealing with priorities, and surely this should be a priority of this committee, even more than the speech from the throne, which sets general policies. One can tell where our government is going essentially by what happens in its budget.

In 1989, on November 24, a resolution was passed in the House of Commons, Canada. It was supported by every political party: "This House seeks to achieve the goal of eliminating poverty among Canadian children by the year 2000." We're two years away from 2000. We now have 500,000 more children in poverty; we now have 1.5 million across Canada. That's measured, of course, by using Statistics Canada income cutoffs. We now have more children in poverty in Canada than any other country in the western world except the United States.

I realize that international comparisons are always questionable, but I think this is something which is surely of concern to all of us. You might say, "What has this got to do with the province of Ontario?" If you look in statistics, the percentage increase from 1989 to 1995, when we had the last statistics, in Saskatchewan it's 3%, in Alberta it's 34%, in Ontario it's 99%. In other words, in this province we are seeing the greatest impact of child poverty. It seems to be invisible. We don't see the children on the streets as we walk down Yonge Street or across Bay or wherever we are in Toronto with their hands out. But we can see it from crime statistics. Violent crime has gone down quite substantially. What's gone up? Vandalism, house break-ins, car thefts, teenage suicides, violence in schools. This is called psychosocial morbidity. It's what happens when young people feels there's no hope in a society in which they find themselves. Since that resolution was passed in 1989, we've learned a great deal.

For example, we've learned that children who are in poverty invariably end up with health problems that affect their future. Their life chance is severely affected by what happens in those early years. We discover, for example, that if you invest in children in their early years, it pays back seven times. In other words, it's fiscally irresponsible not to ensure that children do not exist in poverty. Dr Fraser Mustard has been the one who has looked at the poor health of children and its effect on life chances, but almost every social worker or counsellor has looked at the effect of investing in children and what happens as a result over the years.

We've learned a great deal about learning. We've learned about the human brain and we've discovered that in the first three or four years of a child's life, the connections get made in the brain. I hate to use a mechanistic example, but it's like a huge computer. Half of the connections are already there when they're born. The rest of the connections are made in those early years. We've lived through our lives, most of us, believing that you could always catch up, that is, you could always get the five- or six- or seven-year-old after they've had a terrible early childhood and make up and make amends. What we're discovering now that this doesn't happen. The windows open when they're the age of one or two, or a few months in fact. The windows then close. If we don't make an intervention at that point, we may very well never be able to make an intervention later.

This is why it's so predictable, what happens when you don't do something about child poverty. It happens very predictably. We've realized, for example, that children have multiple intelligences. The schools only really measure literacy and numeracy, but these intelligences relate to their spatial concepts, their musical concepts, their understanding of themselves, their understanding of others, environmental intelligence, spiritual intelligence — a whole range of those things that allow for them to live out their lives as productive and essentially as advantaged human beings.

If we don't do something in the early years about all those formative intelligences which Howard Gardner of Harvard has outlined for the last 10 years and there has been an enormous amount of research on, if we don't do something about that, then it really means that those children will live out their lives at a much less advantaged level. It's not just a matter of hoping we can do well. It we don't do something, we pay and we pay very, very heavily. Over the last number of years we've dealt with the deficits and the debt. One realizes the importance of doing that. One might differ on how it might have been done and over what length of time it might have been done, but the even greater legacy will be thousands, hundreds of thousands, maybe millions of children who will go into our economy, go into our society, severely disadvantaged as a result of how we in this country deal with our children and our children in poverty.

The bootstrap programs in the United States have all been looked at. Remember those inner-city programs in which they've tried to use the schooling system as a way of bringing those children up. In every case they have said it's too late. If you try to do it in grade 1 or 2 or kindergarten even, it's too late. You have to intervene very, very early.

1620

That's why I say that in this province we need desperately a life cycle strategy, which has been suggested. We now have dealt, in our society in the 20th century, with those people over 55 or 60. We've dealt with people who are unemployed, perhaps not very well, but we've done that. We've dealt with young people in many cases. We're trying now to develop systems of scholarships and so on to help people in universities. We haven't done very well in that area either, but we've done nothing in this area of really intervening on behalf of children in poverty. That's the big, black hole which exists in our social security system. We are now in need of a blueprint in terms of dealing with this problem, funding to ensure that there are junior kindergartens in every board.

A few months ago there was a wonderful article on why and what has happened there, where they intervene as soon as the baby arrives home, at the neighbourhood level. They bring in nursing services and educational services and social services, all these things to ensure that the diet and the learning opportunities are there. We live in a learning society. Ironically, with TVO and all the libraries and all the learning services we have, essentially the rich are the ones who benefit and the poor are the ones who never get the chance. There's a huge banquet there, but they never really learn about it unless we intervene at that level.

We've learned of the need for health education and doing that at a neighbourhood level. There are all kinds of ways in which we could use libraries at the neighbourhood level to go out and deal with — if we needed to put teachers on the streets, we'd be better than simply adding more and more money to the institutional system if we really wanted to do something about this kind of problem.

Heaven only knows we've got problems in the area of environment, we've got problems in the area of the arts, and I've listened this afternoon with great interest to people talking about those things. This in fact is a part of that. We should be dealing with the environment with this group of people as well, with those children who, because of their poverty, will become less environmentally sensitive. They will get less effect of artists and inspiration from artists and all the things the arts can do to make their lives more abundant. Once again it's the well-to-do who do better and the poor who do less well.

It's a global problem. It's going on all over the world. I realize, as the last speaker said, that we have a market economy. We have a federal government that should be dealing with a comprehensive child benefit and advance maintenance payments and all of these things. It seems to me that here in this province, when we have the worst record in the entire country, this is surely where there should be a turnaround, where we should be marching back and dealing with that as the highest priority in the budget that is coming forward in the next few weeks.

The Chair: Thank you very much, Mr Pitman. We have approximately two minutes per caucus and we'll start with the official opposition.

Mr Kwinter: Mr Pitman, I apologize, but could you just tell me what that 99% figure relates to?

Mr Pitman: The 99% is the percentage change, from 1989 to 1995, of the number of poor children. The increase in Ontario is 506,000 in number, and that's a 99% increase since 1989.

Mr Kwinter: So it has doubled since 1989.

Mr Pitman: That's right. Exactly.

Mr Kwinter: I'm curious to find out how successful your program is. I commend you for it.

Mr Pitman: It has just begun. We're just gathering names now, gathering people. It has only been in the last few weeks that we've been able to get started on this.

Mr Kwinter: Do you know that when the Minister of Finance announced his tax cuts, he made provisions on the tax form that if you didn't want it, you could give it back to the government? I think there was very little take-up on that.

I have to admit that I haven't talked to everybody, but I haven't found very many people who notice any great difference, because what one government takes on one hand, another government disposes with another hand and everything goes along. When you talk to people and ask, "Have you ever noticed your tax cut?" they say: "Not really. I haven't seen a tax cut."

I commend you. I think you're bang on. I think what you're doing is absolutely right. I just have some concerns if you think you're going to be able to really make a difference, from a funding point of view, by doing it that way.

Mr Pitman: I said at the beginning that all we're doing is trying to deal with the impact of child poverty. We're doing nothing about the problem of child poverty and the reality of child poverty. You're absolutely right. This is why this has got to be a government commitment.

Mr Silipo: Mr Pitman, thank you very much for your comments. You mentioned, of course, the child benefit. I have to tell you that one of the regrets I have from my years in government is that we didn't proceed with the establishment of the Ontario child benefit as we had wanted to do and certainly as I had wanted to do as the minister responsible for Comsoc at the time.

The prevailing reason at the time, as I am sure you know, a view that prevailed in government, was that we couldn't afford the $500 million it would have taken to begin that investment because of the loss of tax revenue from the reduced tobacco tax at the federal level, which flowed through to us. But it clearly remains, in my view, one of the clearest and strongest directions that needs to be pursued because it is the way to break that cycle of dependency on social assistance in a very real way, not in simply cutting rates of benefits etc. Now that government revenues are up and are continuing to go up, it seems to me that governments, both provincial and federal, don't really have any reason not to be able and willing to proceed in that direction.

Mr Pitman: I agree. That's the black hole in our social security system and it has to be dealt with.

The Chair: Thank you, sir. Government members, Mr Baird.

Mr Baird: Thank you very much for your presentation. Your points are certainly well taken. The study from 1989 to 1995 that you commented on showing a 99% increase in fact underestimates it. If you look at the number of children they said were living in poverty in 1995, there were actually 35,000 more children living on welfare at that exact time in 1995. So according to that study, there would be 35,000 children on welfare who weren't in poverty, which astounds me.

Obviously there is a two-track approach. One is, how do you specifically go after and provide programs to children at risk, early intervention, breakfast nutrition programs, something we've worked on, a Healthy Babies program, early intervention there? Those programs are important and they can help, but the absolute priority, the single biggest thing you can do for a child living in poverty, is to get their mother or father, their parents, their caregivers a job, to create an economy that creates those jobs.

Mr Pitman: Oh, absolutely.

Mr Baird: That's a big priority for us, because when people fall unemployed, the first people to be affected are children. That's got to be a priority, not to the exclusion of the other but simply to do your best on both, particularly, though, for children at risk. You mentioned a number of cases, and Dr Fraser Mustard certainly has done a lot of work in this regard. In fact, in our Common Sense Revolution one of only two areas where we said we would spend more money rather than less was on the child nutrition program, the breakfast program. It is a sad commentary on our society that we would need it, but none the less is an issue which required a response and continues to do so. Your points are good, positive thoughts and we certainly should reflect on them.

The Chair: Thank you very much for your presentation, Mr Pitman.

The next presenter is Susan Smith. Is Ms Smith available? Ms Smith not being available, we will stand recessed until tomorrow morning at 9:30.

The first presenter at 9:30 tomorrow morning will be the Royal Bank of Canada.

The committee adjourned at 1628.

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ISSN 1180-4386

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Publié par l'Assemblée législative de l'Ontario

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COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

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The committee met at 0932 in room 151.

PRE-BUDGET CONSULTATIONS

ROYAL BANK OF CANADA

The Chair (Mr Garry J. Guzzo): Could we come to order, please. We have a quorum.

Our first presenter this morning is Mr John McCallum from the Royal Bank of Canada. Welcome, sir. Thank you for coming. Please proceed. You have 30 minutes to use as you wish. If you don't use the entire time, we'll attempt to take advantage of the opportunity to ask some questions.

Mr John McCallum: Thank you very much, Mr Chair, for inviting me here. I certainly won't take 30 minutes. I'd like to take maybe 10 minutes and then answer any questions you may have.

Do people have the handout?

The Chair: I believe so, yes.

Mr McCallum: There are three areas I'd like to cover. One is how the economy is doing now, the second is our forecast and the third is what this means for the Ontario budget.

If you just look at this first page, you'll see that things right now are booming. There's a great momentum in the Ontario, and the Canadian, economy. Employment from a year ago is up 3.9%; the unemployment rate is down from 9% to 7.8%; inflation is less than 1%. So we really are in a high-growth situation and there's a lot of momentum in the economy.

If one looks forward, I think a lot of this momentum will carry the Canadian and Ontario economies through to good, solid growth in the coming year. That having been said, there are a lot of risks out there. I think the world has become more volatile, more uncertain, so we in fact have reduced our forecasts somewhat. The forecasts you see on page 2 are slightly old, because we haven't revised our Ontario forecasts yet and we've put in the forecasts that we made for Ontario at the same time as for Canada. So our actual forecasts are going to be a little bit lower than what you see there.

Notwithstanding the dynamism in the economy, we are concerned with some of the risks out there, not least the Asia crisis. Ontario is likely to be least hit by the Asia crisis. Only 3% of Ontario exports go to Asia, versus 8% for Canada and 35% for BC. So we're relatively insulated.

On the other hand, some of our industries might be hit through increased foreign competition from Asia in areas such as machinery, steel and autos. I think also the lower commodity prices to some degree hit Ontario, and that too can be traced to the Asia crisis.

There's a lot of uncertainty. We don't know whether it's going to get worse or spread, get deeper or broader, so there is worry about that.

Second, the stock market, especially the US stock market, is overvalued by conventional measures. I never predict the stock market but I think there is a risk of a correction going forward, and that's another concern.

A third concern is the year 2000 computer problem. If we look ahead one or two years, that could pose problems. We have limited experience with changing millennia, so it's hard to know exactly what this will bring to us, but it is a concern.

We have a Quebec election coming up. We have the Iraq issue. We have the other Bill Clinton issue, the sex issue.

If you put all that together, we also have the risk of a boom-and-bust US economy. The US economy might not slow nicely. It might continue to go at full speed and we might therefore get rising inflation in the US, which would lead to higher rates.

I don't want to sound gloom and doom, because I started out saying we have terrific momentum, but I just think we should sound a cautionary note, especially from the point of view of budget-making, in that there are things that could go wrong and it's not a guarantee that this momentum will carry us forward at great speed. On balance, what we are saying is that we should, in Ontario and in Canada, have good, solid growth in the next couple of years but we're not expecting booming conditions.

Finally, I come to the budget, and on the third page of our handout you can see we've just taken the 1997-98 update and the official forecast. In our view the deficit for 1998-99 is likely to come in somewhat lower than the \$4.8-billion forecast, something like in the \$3-billion range, because when you take the 1997-98 update for revenues, a lot higher than expected, I think the higher starting point for revenues will mean higher revenues than predicted in 1998-99. On the other hand, there is also higher spending than predicted in 1997-98, and so I think the cut in spending will be somewhat less than implied by

this table. But on balance we think the deficit will probably come in around $3 billion rather than $4.8 billion.

I think that's enough for opening remarks. I'd be happy to answer questions any member might have.

The Chair: Thank you very much, sir. We have approximately seven and a half or eight minutes per caucus. I think I started with the official opposition yesterday; I'll start with you this morning, if you don't mind, Mr Silipo.

Mr Tony Silipo (Dovercourt): Sure, thank you, Chair, although I think we may actually have a little bit more time than that. Do you want to do a couple of rounds?

The Chair: A couple of rounds. That's correct, we have an hour. I told Mr McCallum 30 minutes at the start and we do have an hour. I apologize.

Mr Silipo: Thank you, Mr McCallum, for being here. I want to perhaps just underline some of the points you've made and ask if you could expand on a couple of them.

I'll start with the last one. I'm certainly not surprised to hear that, because when you look at the numbers, if nothing else happens — would that be a fair way to put it? — from the third quarter finances statement, if the government continues on its course, they could easily look at a budget deficit next year of $3 billion and perhaps even lower if that kind of trend continues. In other words, we've seen in the last couple years that beginning in the fiscal plan there is what I guess the government calls a conservative or cautious estimate of the revenue, what I would call an underestimation of the revenue. Then we see the revenue through the year more realistically being what I think one could project. Given that if we're saying the economy is growing, then it would seem logical to me that you could also project that revenue to the government coffers is growing. But that's not what has been in the government books over the last few years, as you know better than I. In fact, the government might very well be in a position to put the deficit even lower than the $3 billion, I would say. Is that a fair conclusion?

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Mr McCallum: Yes, I think governments around the country, this government and the Liberals in Ottawa, make very prudent assumptions on growth, and appropriately so, because finance ministers have to hope for the best but plan for much less than the best. So in normal times or strong times we will see errors that are pleasant errors. The deficit will be lower than predicted or the surplus will be higher. I think certainly if Ontario continues at present growth rates, in almost a boom situation, the deficit will come down a lot faster than is predicted here, other things being equal. But I would also go back to my cautionary note that we can't just assume that good times will go on forever and ever, and certainly a finance minister can't make that assumption, because there's a long list of things that could cause turbulence and problems out there.

Mr Silipo: But the mere fact that as we look at the books now, the worst-case scenario would be that the $3-billion target is realistic on current projections, or maybe, to be even more conservative than that, at least the projections that are currently in the fiscal plan — of the $4.8 billion, I believe it is — and should be easily achievable.

Mr McCallum: I would agree with that.

Mr Silipo: Okay. The question I want to put to you from that is, in the evaluation that you and people from your perspective looking at what governments are doing, and in this case what the Ontario government is doing, where or how do you factor in, or do you, on the one hand the need, which is clear from what you're saying and what you've said to us and others have said in the past, that you want the government to continue to reduce the deficit, against the need for the basic services such as health care and education to also be maintained at a level that somehow in the political or the public consensus is deemed to be adequate? How does that factor in or to what extent does that factor into this equation?

Mr McCallum: In my earlier remarks I was speaking kind of as a technocrat; what did I think the deficit would be is a purely objective question. Then you might say to me: "Let's say it's $3 billion instead of $4.8 billion. Should you take the difference of $1.8 billion and put it into health care or education? Or should you just leave it there and bring the deficit down faster than expected?" That's a different kind of question.

What Ottawa did was it just brought the deficit down faster than it had planned earlier. That's popular with markets, but one could argue, if there are pressing needs, that one should be content with the $4.8 billion, and if it comes in lower, you have extra money that can be devoted to social programs. I think that's mainly a political question, depending on how great those needs are, compared with the desire to bring the deficit to zero quickly.

Mr Silipo: I think we all understand that it's very much, as you say, a political question. What I was interested in probing a little bit more, though, was to what extent, if any — let me be clear. The impression I have is that that issue doesn't play a major role in the approach — and again I'm not trying to be personal here — but the approach that somebody like a John McCallum might take in saying to the government, "This is what I think you should do." Is that a correct assumption on my part?

Mr McCallum: I do my best not to tell governments what to do, because governments are elected with certain promises, and the basic thrust of the government is decided, in a democracy, in an election. The current government was elected on a promise of tax cuts, spending reductions and so on, so I don't say to that government, "Do something else." Who am I to do that when they've been elected to do otherwise?

Mr Silipo: Fair enough.

Mr McCallum: I would say, however, when the deficit was very big and the debt seemed to be rising without limit, that for economic reasons it was very important to get that under control. That's the kind of statement I would make.

Mr Silipo: Right, but the reality is that that is continuing to rise during this period, in part at least, I think we would agree, because of the cost of the tax cut.

Mr McCallum: That depends on what would otherwise have occurred had there not been a tax cut. If the tax cut was financed by equal spending cuts, then you could say absent the tax cut you would have had less spending cuts and the same deficit. Or you could say absent the tax cut you would have a smaller deficit. It all depends on what you would have done on the spending side in the absence of the tax cut.

Mr Silipo: Okay. Coming back to this broader question — and I appreciate what you're saying, that it's not your job to tell government what to do — I continue to be troubled by this whole question of the balance that governments have to reach between being able to show that they can pay for things, that we can pay for the services, and when we're in a situation like this, for example, where I would argue that the government is now in perhaps a bit of a unique position to not only continue to show that it's bringing the deficit down, but to do it in a way that doesn't have to jeopardize services further, such that you wouldn't have to proceed with further cuts to health care and education, and it could still be following through on its commitment to reduce the deficit.

Why isn't that — and I ask it that way because obviously I'm showing my own particular bias, but also my sense of what I see the market forces saying to the government, this government and other governments, for that matter. Why isn't that factored in to the degree that I would argue it needs to be in terms of saying that also is part of the balance that we have to find?

Mr McCallum: Let me answer that with two points. On the one hand, I think it was absolutely necessary to get our deficits and debt down from where they were, both federally and provincially. Why do you think the economy is booming now? Largely because of low interest rates. Do you think for one moment that we would have these low interest rates had we not done anything about our deficits and debt? No. So the cuts, while very painful, ultimately and right now are leading to the creation of many, many jobs because of these relatively low interest rates. That means it's not being harsh and uncaring to say it's important to get the debt under control, because ultimately, and we're seeing it around us today, having done that, we are creating jobs. Can you imagine where we would be had we not attacked our deficits, now that we are in the midst of an Asian crisis? We would be in the soup. I think a high priority has to be get the deficit and debt under control.

The second comment in response to you is that when you're talking about around the margins — the target for the deficit is $4.8 billion. Let's say you come in at $3 billion. Do you use part of that saving to improve social programs? The fiscal world is not going to fall apart if you do. If you attach a higher priority to the deficit and debt, you wouldn't do that, but if you don't, Bay Street is not going to be up in arms. Probably most Bay Street types would prefer you to put that money towards getting to a zero deficit sooner, but I don't think it's the end of the world, from a financial prudence point of view, one way or the other.

The Chair: That would be a good spot to break, and I'll move to the government.

Mr John R. Baird (Nepean): Thank you very much for your presentation. We appreciate the time you took in putting it together and your coming this morning.

There are two issues I wanted to raise. The first one relates to the point that my colleague Mr Silipo made. One of the things in the business plan at the Ministry of Finance for their economic models is to be in the cautious end of the range of private sector economists. What do you think has been the result when governments of all three parties, federally and provincially, have not made their deficit reduction targets? What has it meant, in your judgement, in the investment community and in the business community when those targets have not been met, and have not been met consistently?

Mr McCallum: I think that has had negative effects. If you go back to the early 1990s and you look at Ottawa's deficit forecasts, especially when they went forward two, three or four years, we always had the deficit coming nicely down two or three or four years into the future, and often it just ballooned up. That would apply to some provinces too. That's why there was no credibility and people thought that public finances were out of control, and at the time of the Mexico crisis they even thought we would be the next Mexico. In Quebec it even led soft nationalists to say, "Let's get off this drowning ship before we drown in all this debt."

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We've had a radical sea change, and I think it's basically two things: One, we don't try to predict five years ahead, because we're no good at that. We just go one or two years ahead. And we use extremely conservative assumptions and we have contingency reserves. Then again we're usually wrong, but we're usually wrong in the right direction. Paul Martin in Ottawa has huge errors, but they're errors on the right side.

I think it's this new environment where we do hit our targets, come hell or high water. The markets have come to count on that and the targets have become credible, so we are seen to be on the right path to getting the debt-to-GDP ratio down. I think that is not the only thing but is a central reason why we have these low interests rates, even lower than the US. Those low interest rates are central to job creation. So I think hitting the targets and not missing them, and if you miss them, you exceed them, you don't do worse, is of great importance and it's a major advance that we in Canada and Ontario have been making.

Mr Baird: So in your view there's no negative aspect to missing your targets in the positive side.

Mr McCallum: Well, you kind of have a reverse credibility problem if you miss them too much for too long, and we might be approaching that stage in Ottawa. It's certainly better than the opposite. I think one might be able to say: "Look, we don't mind if we miss them. We expect to miss them if it turns out to be a good year, because we deliberately make prudent assumptions." So it's not irresponsible to miss them in the right direction. It's just because you plan for not the best, and if the best

happens, you do better than you've planned for. There's nothing wrong with that. If the gap gets too huge for too many years, that might present a problem, but certainly nothing like the problem if you consistently miss them in the other direction.

Mr Baird: The second issue I wanted to raise was the issue of consumer confidence. That's obviously a fundamental part of economic growth, low interest rates. Governments getting control of their deficits play a part at both the federal and provincial levels.

I was interested in the second page of your document under "Forecasts for 1998-99": "The fiscal drag has finally started to be offset by the income tax cuts implemented in fiscal 1996-97, contributing to robust consumer spending." Could you elaborate on that? Do you think the tax reductions have had a direct relation to consumer spending?

Mr McCallum: As I said in answer to the earlier question, you really have to say, "What would have happened without the tax cuts on the spending side?" But just taking the tax cut in isolation without considering that, clearly it put more money into people's wallets, and that contributed to the increased consumer spending. I wouldn't put it at the top of the list. I would put the low interest rates, the job creation, income growth and the strong growth in the US economy — those things over which we have less control are the principal drivers. But certainly if you can put more money into people's pockets, that will help.

Mr John Hastings (Etobicoke-Rexdale): Dr McCallum, thank you for appearing before us. I would like to ask you about the impact that we often hear of the banks in terms of the role of trying to help small business create jobs. I would like to know to what extent, in your own estimation, the Royal Bank has made a real effort to try to improve small business job creation in Ontario.

Secondly, if the proposed merger between the two largest banks in this country — first and third, I guess — proceeds with federal approval, how do you think that will limit or expand access to capital for small businesses? When I talk about small businesses, we're talking about the really small business folks, the micro-businesses that might grow into small and medium-sized business. I define small business in this context as under 10 employees, probably.

The common perception out there is that the banking community, even despite your appointment of an ombudsman to deal with issues of access to credit and all that, still has a long way to go. I'm wondering if you could put some positive numbers to where your institution is and, if the proposed merger proceeds, what will happen in that instance with respect to these small business folks.

Mr McCallum: This is a somewhat different topic and not directly my area of expertise, but I will try to answer that.

It is true that in the early 1990s, in the time of the recession, in some cases the banks' treatment of small business was less than wonderful, but I think there has been huge progress since that date and many efforts made to improve it. You mentioned the ombudsman and strong growth in lending to small business. It's not just because the banks want to be nice; it's also because the banks make a lot of money in lending to small business, so it's in our interest to keep the customer happy not just out of altruistic motives but because it's an extremely important part of our total business.

On the question of the merger, let me make a general comment. I think it will ultimately go through, but what the banks will have to do is convince the Canadian public that this is good for what you might call four interests: the customer interest, which would include the small business customer; the national interest; the employee interest; and the shareholder interest. I think what we have to do is make a case to the Canadian public that in all of those four categories we do improve the situation. I think we will be able to demonstrate that because I think that is true, but we are only just beginning and there will be quite a long debate.

In terms of the impact of the merger on small business, I think this will improve. I think access will not be diminished and certain fees are likely to be reduced, so in that sense small business will benefit. So certainly in terms of no reduction in access and probably better access through various technological means, that would be easier to do as a merged entity than as a single bank, plus, if anything, lower service fees. It seems to me that the small business person would benefit in those ways from a merger.

Mr Hastings: My second question relates to tax cuts. As an economist, you're not very enamoured of any kind of tax reduction, responding to my colleague.

Mr McCallum: I didn't say that.

Mr Hastings: Well, looking over some of your previous readings — in the writings in the Financial Post, for example, over the years, and when you were at McGill — I get an impression that the priority of a tax reduction doesn't play very much in your thinking. So let me ask you about tax increases.

What is your thinking in respect of any government that increases taxes, in whatever areas, provincially on a consecutive basis? Whether it's corporate, personal, retail sales tax or what have you, how does that play, in your thinking, in terms of how those tax increases adversely or positively affect the provincial role in the economy, primarily (a) when it's in a recession and (b) when it's coming out of one? Do you believe tax increases are generally a good thing by a provincial government of whatever political stripe, since you obviously aren't very enamoured of tax reductions on the other side of the coin?

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Mr McCallum: I'm flattered you've looked with such care into my history.

Mr Gerry Phillips (Scarborough-Agincourt): We have a complete dossier.

Mr Hastings: Total.

Mr McCallum: There's another John McCallum, you know, who writes in the financial — you haven't got the two of us mixed up?

Mr Hastings: No, we're not confusing you two.

Mr Phillips: His gumshoe got you.

Mr McCallum: Anyway, I would deny the charge that I favour high taxes and don't like low taxes. That's not true. I think if you raise taxes, you slow the economy; if you reduce taxes, you speed up the economy, other things equal. Anybody would say that.

Interjections.

Mr McCallum: I said, "Other things equal."

Mr Silipo: You've got to listen to the whole sentence here.

Mr McCallum: If you cut taxes and cut spending at the same time, then the two may cancel out, but if you cut taxes and leave other things unchanged, then obviously you stimulate the economy. Since you asked me about my philosophy, let me try to explain. I as a citizen may be a right-winger or a left-winger; it's none of anyone else's business, really. But I as an economist, especially one who works for a bank, try to be relatively neutral on certain issues. I am quick to say I think it's extremely important we get our deficit and debt under control, because otherwise we'll have very high interest rates and we'll lose jobs.

In terms of the debate between whether you favour big cuts in spending and big cuts in taxes and a really small government, or higher taxes and a bigger government, economists have something to say about that, but I think that the larger the question, the less economists have to say and the more it is something into the political arena. Basically it's the people who decide, in an election.

The people decided in favour of your party's platform in the last election. In the last federal election they were offered lower taxes and lower spending by Reform, higher taxes and higher spending by NDP, and something in between by the Liberals, and the Liberals won. I think it's primarily in the political arena, rather than in statements by economists, that these really large issues are resolved. Economists are more useful on, not unimportant, but rather smaller issues.

Mr Monte Kwinter (Wilson Heights): Mr McCallum, I was really interested in your presentation on the public finances, and I'd just like to go through it a bit with you to get your reaction as an economist. I notice that in the forecast for 1998-99 it shows revenues are going to be $48.8 billion.

Mr McCallum: Yes.

Mr Kwinter: We already know from what was given to us yesterday by the Minister of Finance that the updated revenues for 1997-98 will approximate $51 billion. His figure is $50.825 billion. We still are in the last quarter. I would think if we rounded it off, we're looking at probably $51 billion.

Mr McCallum: Right.

Mr Kwinter: You are predicting as an economist for the bank that you see the economy maybe not quite as robust as you might have anticipated a little earlier, but certainly matching this year. Is that correct?

Mr McCallum: We're now thinking that 1998 might be a little slower than 1997, but more or less the same.

Mr Kwinter: More or less the same. So the expectation is that we should be able to get to about $51 billion as well in revenues?

Mr McCallum: You have to factor in the tax cut as well, but certainly revenues, own-source revenues, should be showing robust growth.

Mr Kwinter: Then if we take a look at the expenditures, we have a situation where, again from the updated figures we got yesterday, the expenditures are in about the $56-billion range, $55.987 billion. The forecast — I assume this is the government's forecast and not your forecast.

Mr McCallum: Correct.

Mr Kwinter: They're the ones who control the expenditures and not you as an economist.

Mr McCallum: Correct.

Mr Kwinter: They are predicting they will be reducing this by at least $3 billion in their expenditures, and you indicate you don't think that's practical or realistic.

Mr McCallum: I would just guess. When this was initially done they expected expenditures in 1997-98 to be $54.3 billion and in 1998-99 to be $53 billion, so they were anticipating a $1.3-billion spending cut at the time the 1997-98 forecast was made. If they were to achieve the original spending target, instead of a $1.3-billion cut, they would need to have a $3-billion cut, more than double. My guess would be they won't achieve that, but because the revenues are so strong, they will still easily hit their deficit target and arguably, we think, do better than that target.

Mr Kwinter: That was the point of this whole exercise. I just want to be able to take a look at that deficit target and it would seem to me that, given these figures, there is a good chance they would be well below the $3-billion deficit for 1998-99.

Mr McCallum: It depends. They could be. What we say here is: If our forecasts for real "and nominal GDP are on track, own-source revenues should be up by approximately 4%…. If spending was not increased, and given flat federal transfers and the contingency reserve, this would translate into a deficit figure under the $2-billion mark."

But we think when we say, "If spending was not increased," we mean relative to the plan, so that means if there were indeed a $3-billion cut. We have no inside information, but our guess is given the hugeness — if that's the word — of that cut, we don't think they'll cut that much and so we're suggesting maybe a deficit of around $3 billion. But much depends on what the government decides to do on the spending side.

Mr Kwinter: What are your projections on long-term interest rates vis-à-vis the American rates?

Mr McCallum: We are in one of these positions where we don't know the direction of the next move for sure. You've got Asia pulling rates down because the US is a safe haven and money is going to the US, so the worse Asia gets, the lower the interest rates will be. On the other side you've got really low unemployment, really tight labour markets, the risk of rising wage inflation tending to

pull rates up. In recent months Asia has won and longer-term rates in the US and Canada have come down to near-record lows.

Going forward, our best guess is that the domestic side will narrowly win and that the next move in interest rates south of the border will be modestly up, but only modestly, like a quarter point. We could be wrong. Particularly if the Asian thing deteriorates, we could have a reduction in rates. I guess a simple way to say it is that we don't think US rates will change all that much, but we would have a slight bias to higher.

Mr Phillips: I appreciate your being here and I'd love to have that dossier Mr Hastings has just pulled together on you. I hope it wasn't at taxpayers' expense.

Mr McCallum: It makes me nervous.

Mr Phillips: Yes. Just on employment growth, I'm trying to get some idea from you of how economists predict the growth of employment. The finance officials have told us that they predict, normally, employment growth at the rate of real GDP minus one percentage point; in other words, for real GDP growth, subtract one percentage point and you get employment growth at 3%. I am looking at your chart on forecasts for 1998-99 and for real GDP in 1997 the government yesterday indicated it was more like 4.4%, I think, than your 3.8%.

Mr McCallum: Right.

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Mr Phillips: Yet employment growth in 1997, and we now have the actual number, was 1.9%. I think the minus 1% tends to work over time. My question is, is there anything going on in the economy that would suggest that no longer is an accurate predictor of employment growth? The reason I say that is we did see, in 1997, real growth in excess of 4%, but employment growth slightly under 2%. Should we as a Legislature begin thinking that maybe employment growth will not be at historical rates with GDP or not?

Mr McCallum: That is a very good question. The difference between the growth rate of GDP and the growth rate of employment is the growth of productivity. It's the growth of GDP per person employed, which is productivity, how much output does every person who is employed produce. In the long run productivity growth is key to rising living standards, and if the gap is always 1%, it means productivity output per person is going up at a rate of 1% per year.

In recent years, in fact since about 1980, Canada's productivity growth has been pretty low, and in the 1990s it's been very low, partly because we have had such a weak economy, recession and so on. There is a cyclical element to productivity growth. When the economy slows down, firms don't immediately lay workers off, so output per person employed tends to go down. When we have an upswing, firms don't immediately take employees on because they may rely more on overtime initially, so in an upswing output per person employed tends to go up fast. We're in an upswing phase in Ontario and that means that productivity growth in 1997, as you just pointed out, since it was such a strong upswing year, was very high, so the number may average 1% over the cycle — we don't even know for sure what it will be going forward — but it won't be a constant from year to year. It will tend to be higher in boom years and lower in downturn years.

Mr Phillips: On revenue growth projections, again historically, with no changes in taxes or anything like that, I think the financial officials have indicated own-source, or at least tax revenue — I shouldn't say own-source revenue because gambling now is a big part of revenue, and if we have time, I wouldn't mind getting any comment you might have on that. Do you have a factor you use for tax revenue growth, assuming no changes in tax structures, of what we should expect? I think it's always been around nominal GDP.

Mr McCallum: I think that as a rule of thumb, growth rate in total tax revenue assuming an equal-to-growth rate of nominal GDP isn't bad. If you don't have an indexed personal income tax system, you can have bracket creep, so it may grow faster than incomes, but other taxes may grow slower than incomes. I must confess I'm not an expert on all the details, but I think assuming that own-source revenues grow with nominal GDP is a pretty good rule of thumb.

Mr Phillips: Your Asian comment is interesting. We have talked to some of the commodity people who say, "We don't ship much of our stuff to Asia from Ontario, but our prices are going to be fairly substantially affected because our competitors towards the west coast do, and they're now going to be moving into our market," so coupled with so much of the Ontario economy being driven by the US economy, you estimate the Asian impact on Ontario as fairly modest; others indicate that maybe it would hurt their profitability and prices more than that.

Mr McCallum: I would say it's modest but not trivial, and it could become more severe if the Asian situation were to worsen. The pure export side, as you say, is very small, but there are other mechanisms. Ontario is less dependent on natural resources than the west, but it's still important in parts of this province and they're hit by lower prices.

We will to a degree have a flood of cheaper Asian goods coming into our markets and this will make it harder for our own industries to compete in certain areas. The US will grow somewhat less fast as a consequence of Asia, so that will hit us.

There's another element which I think is important, which people don't talk about as much, but it's hard to measure, and that is that the US Congress is already in a pretty ugly protectionist mood. They didn't let Clinton go through with the fast track on NAFTA expansion. How do you think they're going to react to ballooning trade deficits with Japan and other parts of Asia? I would say not well. So you may see a certain amount of increased protectionism in Washington and while it will be aimed at Asia, we may suffer what the Americans sometimes call collateral damage. I think that's another issue that could be important for Ontario.

The Chair: This would be a good spot to break. Mr Silipo, you have about five and a half minutes.

Mr Silipo: Mr McCallum, I wanted to pick up on one of the final comments you made in our last exchange around jobs. I listened intently, particularly to your response to Mr Hastings, on where you would put in terms of your rating the issue of tax cuts as they relate to bolstering consumer confidence. I want to take that further into the area of job creation because it seemed to me that you were suggesting earlier that the tax cuts are crucial or important in terms of creating jobs. I don't know if that's what you were saying.

Mr McCallum: I didn't say that.

Mr Silipo: Okay. Then I guess I'd like to ask you to expand a little bit more on that. Again, what we're seeing is that the impact of the tax cut for the larger majority of Ontarians is, first of all, minimal in terms of when you look at how much money actually goes into the majority of Ontarians' pockets at the end of the day. If you look at how the tax cut is spread, there is very little money in the hands of 50%, 60%, 70% of the population who pay taxes here. When you add to that the fact that most of those benefits are wiped out for most of those people before they even get a chance to spend it by the increases in taxes by the federal Liberal government for employment insurance and CPP, then it seems to me that there's a bit of a problem with the theory that the government and others are espousing, which is that it's the consumer spending that then generates the creation of jobs.

Then again, when I compare that to not just the projections for job growth that we had prior to this government coming into office but to the reality of the job growth that was beginning in 1994, into 1995, I obviously come to the conclusion which says the tax cuts are not needed to help create the jobs. So I'd be interested in your reaction to that.

Mr McCallum: Obviously this is a contentious issue and I didn't mean to give one answer to one side and one answer to the other side. The questions were kind of in a different context. So let me give you one single answer now, which hopefully will apply to both sides. Let's say government spending stays the same and you cut income taxes by a dollar. That will stimulate the economy because it puts a dollar into the hands of the consumer who didn't otherwise have that dollar and part of that will be spent on goods and services. You may also have some favourable supply-side effects coming from lower taxes on things like incentive to work. That's case A.

Case B: You cut taxes by a dollar and you cut government social program spending by a dollar. In terms of the effect on spending, they might more or less cancel out because you're taking a dollar away from the spending and you're giving that dollar to the taxpayer. So in terms of the demand effect, those two things might cancel out. But you might have some favourable supply-side incentive effect arising from this move, so the effect is not necessarily zero and in the longer term those supply-side effects could be lasting and important.

That's why when you ask, "What does the tax cut do?" you always have to ask at the same time, although this is a difficult point to get across, "Is it a tax cut holding the spending constant or is it a tax cut accompanied by an equal spending cut?" because the answer to the question is so terribly different depending on which of those circumstances is the case.

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Mr Silipo: I suppose it would also have to be factored in what the overall approach is to reducing the deficit, because it seemed to me from what you were saying earlier that that was even more a key direction from your perspective.

Mr McCallum: Yes.

Mr Silipo: In other words, if the debate is not around whether you should reduce the deficit but if you take that as a given, that reducing the deficit is in the long term and even in the shorter medium term a good or useful direction, then where the difference lies is not so much in how fast you get there, although that may be part of it, but more in terms of balancing that against what I would see as the broader package of what that means in terms of services like health care and education and how that all comes together in a way that says to people what we have here is a society that works because you've got both an adequate level of spending that government can sustain coupled with and balanced against a level of services that all of us as Ontarians decide is what we want and want to continue to have.

Mr McCallum: I'm not sure if that's a question or a statement.

The Chair: Unfortunately, you don't have time to answer it if it is a question. We're out of time for the NDP. For the government, we have about four minutes left.

Mr Ted Arnott (Wellington): Thank you, John, for your presentation this morning. I want to follow up on something Mr Hastings said, and I think you'll probably take this message back to your colleagues. The government wants to work with you, recognizing the interests of shareholders and depositors as well, to ensure that there is an adequate supply of capital for small business. We want to work with you in that regard, obviously.

The debate that's been discussed this morning is probably the fundamental economic difference of opinion in the Legislature right now, the benefits of the tax cut. Obviously, the government feels that by cutting personal income tax rates, there is an immediate stimulative effect which directly encourages job creation. Do you agree with that statement, first of all, in the context of how we're doing this?

Mr McCallum: I think I kind of answered that before. If you hold other things equal, everything else being unchanged, then yes, the tax cut will put money into people's pockets and they will spend it and that will help to create jobs. Of course there are other factors creating jobs, like lower interest rates and US demand and all of these things, but yes, they will help. But if I were on the opposition side, I would also then ask the question, is this tax cut at the expense of social spending? Maybe it isn't, in which case the job creation from the tax cut is a pure gain, but to the extent it is, you have to measure the job creation from the lower taxes versus the job loss from the reduced

spending and then it might wash out, but you would still be left with a possible supply-side incentive effect, that people would want to work harder, for example, if they keep more of their paycheque.

Mr Arnott: I have a lot of other questions, but I'll defer to Mr Brown.

Mr Jim Brown (Scarborough West): I'm delighted when a banker comes to see me.

Mr McCallum: It's a pleasure to be here.

Mr Jim Brown: As a former small businessman who relied upon the bank for capital, I'm a little concerned about the threat of the proposed merger and what that will herald in terms of other mergers. I'm concerned, and maybe you can alleviate the concern. Almost every transaction in Canada goes through the Big Five banks, and it would be the Big Four, I guess. One of the arguments for the merger is to be stronger internationally and that's what worries me, because if the intent is to be stronger internationally, to me, that means to be stronger exporting capital. If you're going to export capital, where is the capital going to come from for the small and medium-sized enterprises that provide 85% of all the new jobs, that are probably the backbone of the current growth, though your numbers don't break it out? I'm concerned, and maybe you can alleviate the concern, that we're going to start to export a lot of the capital that's here at the expense of our SMEs, our small and medium-sized enterprises.

Mr McCallum: I can assure you that won't happen, because it wouldn't be in the interests of the bank not to lend money to customers from whom the bank makes a profit. Why would we not want to lend to Canadian small business when we make a good return from that? I'm trying to get away from any altruism at all, to make the argument more convincing.

Mr Jim Brown: Don't get into altruism.

Mr McCallum: I'm not. I think we've been going to great efforts to grow that business. It's a very core business, and I don't see that the merger would make us want to do that any less; indeed, more. When we talk about being bigger in foreign countries, it doesn't mean we export capital. The Bank of Montreal, for example, has Harris Bank in the US, and Harris Bank has the American depositors. So the Bank of Montreal takes the money that the American depositors deposit and lends that out. It's not a question of exporting money from Canada to lend to Americans. They take those American deposits.

From a Canadian point of view, if the banks get bigger overseas or in the US but in fact are based in Toronto, then you're going to create more jobs in Toronto. That's a positive. You're going to bring more money into Canada from the earnings that the banks will make overseas, so you will improve your balance of payments and you will create more jobs in this country, and especially in this city.

The Chair: The Liberal Party has about two and a half minutes.

Mr Phillips: I just want to talk a little bit about the need for financing by our business community and the impact of the banks. Historically, business paid the banks interest, and that was the big charge. I suspect that's how the banks historically made their money. My sense is that a growing percentage of the banks' revenue comes from bank charges. That's my suspicion, that it's a growing percentage, and that small business is seeing that as a growth area in their expenditures. Interest rates have dropped, but they've been hit with a variety of new charges.

I guess my question really is, is that the approach the bank is taking, to increasingly look at charges for services, as opposed to just interest costs, and what assurance can you give us in terms of the competitiveness of our financial community versus — because we're often hearing from business that we have to have competitive governments, but are our financial institutions competitive internationally in terms of the cost our businesses have to face to provide their financing and financial services?

Mr McCallum: The banks' income is often stated in two parts. One is net interest income. That's the difference between the interest rate we charge to people and the interest rate we pay to depositors or others for that money. That net interest income has actually been coming down, relative to the size of assets. So the spread has been coming down.

The other part is called "other income," and other income, it is true, has been going up relative to assets. But that other income is not just fees. In fact, most of it is not fees charged to depositors; it's everything, like what we make in insurance, income from merger fees, income from capital market things and mutual funds and wealth management, everything. The service charges to business and to households are a very small component of that total other income. So you have to look at them separately.

What I do know, and you asked about competitiveness, is that relative to US banks, Canadian banks are highly competitive in the sense that we charge less for service fees and the spread between what we pay for the money and what we lend it out at is much bigger for the US than for Canada, especially for small businesses. The spread that small business in the US pays is way up here, compared with Canada. As the businesses get bigger, that gap is reduced, and I think the reason is that often in the United States you only have one or two banks in a single town and there's less choice than there is in Canada. So even though the US has thousands of banks, they have what you might call local monopolies in certain parts of the country and that's made us offer lower prices and be more competitive in Canada.

The Chair: Thank you, sir. I'm going to have to interrupt you there. Our time is up. I thank you for your attendance and your time; most interesting.

Mr McCallum: Thank you all.

Mr Phillips: It would be useful to get that information. Lots of information offered here on the thinner spreads in Canada and the service charges.

The Chair: I think it depends on where you go in the United States. It's certainly true in the border towns to Ontario.

If the committee agrees, we'll take a five-minute recess at this point to set up the projector and come back with our next presenter.

The committee recessed from 1031 to 1036.

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

The Chair: The next presenter is the Canadian Federation of Independent Business, represented by Catherine Swift, the president and CEO. Ms Swift, welcome and thank you for coming. If you would you like to introduce your cohort.

Ms Catherine Swift: Thank you very much. It's a pleasure to be invited here today. We're usually here in a more formal organizational capacity. My colleague Judith Andrew is scheduled to appear in a week, I believe it is, to address more organization-specific priorities.

My background is as an economist, which I admit from time to time. That's certainly the perspective I plan to speak from today. I think a number of the other people you have invited, John McCallum being one good example, are better equipped to address some of the more international factors. I am going to focus very much on domestic economic factors now, naturally with a focus on Ontario from the perspective of the small- and medium-size business community.

I have a few charts. I distributed some black and white copies. Unfortunately, because they are colour charts, some of them are not that easily decipherable, but hopefully when we go through them on the overheads you'll be able to see a little better what they indicate.

It was interesting preparing for today because, although I've appeared before this committee a number of times, I wasn't too sure about this sort of special category. I looked through all the presentations made last year. Of course, we economists hate it when people check our predictions from a year ago, but since I wasn't involved then, I felt I could get away with it. I found it intriguing in terms of the presentations of the different parties and in terms of what they were predicting with our now 20-20 hindsight.

It was interesting to see that the economists who appeared last year who were the most optimistic were also the most accurate, so that's obviously good news. Those who felt that some of the policies being pursued in Ontario were going to be very bad were the ones who were most wrong. I don't know whether or not that's prescriptive for this year, but that's an observation on what happened in the last year anyway.

Certainly our membership in Ontario does continue to be very optimistic on the coming year for Ontario, and for that matter in other provinces as well, to varying degrees. As you know, at the CFIB we do extensive research and surveying of our members. We do an annual survey on their outlook for employment and investment. We conducted our most recent one in November of last year and we found that our members indicated they were more positive about economic prospects for the next year than they had been since 1989.

I've worked in different capacities as an economist over the years and I've found that small firms — the data we get from our members are amazingly accurate leading indicators of the economy. We all look at the StatsCan data and the official crunchings and so on and so forth, but I found that good things that are happening in the economy tend to be noticed by small firms more quickly; and negative downturns in the economy also, because they're just not as well insulated, they're just not like the large corporate sector or the public sector, for that matter. So I have found the data that we get as an organization, over the 10 years I've worked with it, to be very predictive.

Referring to the first chart, when we look at the expectations for the economy and for their firms' prospects, and we compared here 1997 and 1998, you can see that we found about 10% of the respondents expected a much stronger 1998 than 1997 and then just under 50% — 49.6% actually — expected stronger. In other words, we've got roughly 60% who are expecting a stronger performance to some degree, and then about another third the same. That seems to bode pretty well, I would say, for the coming year.

When we look down the different sectors and what we see in terms of which sectors are the most optimistic, those include manufacturing, wholesale and business services. Again, these are sectors that are quite prominent in Ontario. They represent a bigger chunk of the economy in Ontario than they do in other provinces, so the fact that they are some of the more optimistic sectors obviously is also very important.

However, there was across all sectors a pretty upbeat approach taken. When we looked overall at Ontario small firms' expectations versus those in all the other provinces across the country, we found that in Ontario the small firms were second in their positive expectations only to those in Alberta. It was basically number two in the country in terms of their outlook for the economy.

We broke out some regions of Ontario just to get a bit of a regional perspective. As you can see, Toronto and central Ontario are virtually identical in terms of being among the most optimistic. Again, all regions — even the north, which is the worst, I guess, but on the other hand it's still in the high 80s in percentages — are expecting a stronger or similar type of economic situation. So the optimism regionally is also reasonably consistent.

One thing we did I'll just touch on really briefly. Postal strikes hit our members hard as a rule, and we did this survey just before the postal strike, so we wanted to do a little reality check on whether or not the outlook had changed much. There was a little bit of change coming out of the postal strike, but not significant, and I might note that subsequently, because we did this back in December, we have noticed again in the early part of 1998 quite a positive outlook from our members, so we don't think things like the postal strike did much to put a dent in this forecast.

Of course, the important thing to all of us is what impact all these good optimistic feelings will have on employment creation. Here you can see a disaggregation by the size of business, and we're seeing that the darkest blue are the proportion that are planning to increase employment, and for Ontario overall it's just under 40% of the businesses, so that's quite an optimistic outlook. Of course, a much larger chunk, no change, and a very small proportion, just over 10%, are planning a decrease. This employment growth appears to be concentrated in the, I won't say medium-sized, but certainly the five-and-up category, but even the smallest of firms are looking at a reasonable degree of job creation. We extrapolated and translated this into overall growth in employment in Ontario and it turned out to be just under a 4% growth predicted for 1998. This was roughly equal to the national average we found in our survey.

Another interesting component of this was that about 70% of the jobs that were predicted to be created were expected to be full-time jobs. We have had a concern over the past few years, notably as we've pulled out of the last recession, that an inordinately high proportion of the jobs that we saw created were part-time jobs. There was too much overtime and so on, and of course as a result we heard some calls from some quarters we heard some calls from some quarters to introduce legislation to limit hours of work, for example. There are still constituencies that feel we really need to do that, the Jeremy Rifkin approach to the universe, I guess, force limits on overtime, and as a result, this would be believed to convert part-time jobs into full-time jobs. Again, when I reviewed last year's testimony before this committee, I saw some of these sentiments expressed at that time.

First of all, we've looked into this pretty extensively, and when we have looked at experience in other countries, we have found that it has never worked. One of the reasons it has never worked is that the employees themselves do not want these types of measures that put limits on their own work and what not, and of course it's also an added rigidity for the business that reduces their efficiency and effectiveness.

What we also see when we look through business cycles is that historical data show that growth in part-time employment and expanded use of overtime are very natural precursors, in the early part of a period of economic expansion, to the creation of full-time employment. We have seen this in every single business cycle. What ultimately happens, of course, is that these part-time positions and the use of overtime, once business owners are convinced that this is indeed a trend that is robust enough and is going to be sustained, move into full-time jobs. We're finding this indeed again in our survey data, and even when we look at the StatsCan data on labour force numbers and employment data, we're seeing a conversion into that full-time job area, which again is very positive and everyone is very pleased to be seeing that. We certainly believe we're now at the stage in this particular economic expansion where we can see more employment stability perhaps than we've seen through the early years of the 1990s in particular.

The next slide deals with the factors that would influence firms to increase their hiring. We do this kind of survey regularly to see how the different factors shape up. Greater customer demand, which is really just a proxy for growth in the economy, not surprisingly is by far the strongest factor. We have found in Ontario, for instance, the personal income tax reductions have consistently been positively received by our members. We have tracked how they feel about them as they have occurred over the last couple of years, and they have played a positive role in terms of improving consumer confidence and giving a boost to consumer spending, as well as, naturally, the fact that we are in a positive phase in the business cycle. Interest rates are low, as John McCallum mentioned, and there are a number of other factors that feed into it. But there's no question that the PIT reductions have been a significant factor in these trends.

The second most important factor, listed pretty consistently on all our surveys, is payroll taxes. We believe certainly from our own research and international research on this issue that payroll taxes are increasingly viewed to be a barrier to job creation, particularly having negative short-term impacts on employment.

It's interesting to view this issue in light of the youth unemployment issue. We have heard an awful lot of discussion about this issue. The upcoming federal budget in a couple of weeks is expected to have a centrepiece dealing with or ideally trying to deal with this issue, although on the one hand, when we look at data over the last few decades, youth unemployment typically is in the mid-teens, unfortunately, for all kinds of different factors. This isn't to say it's not serious, but it is to say that we shouldn't get things out of perspective in this particular economic period, while at the same time of course dealing with it as best we can.

From a small firm perspective, a disproportionately high percentage of youth get their first job in a small business. We found in our own research that where the employment of youth overall in the economy is about 15% of the total number employed, in small firms it's 30%. In other words, there's a real link between small firms and the youth unemployment issue, or youth employment issue. We're actually doing some pretty comprehensive research right now on this question. We won't have any final results until probably about the spring, but there's no question that one very clear signal from employers is that the more costs you load on the taking on of a new employee will fall disproportionately hard on youth. That youth needs more training, naturally, there's more of an investment required to bring that person into a productive member of the workforce for a firm, so the costs you impose through payroll taxes, heavy legislative burden or whatever it may happen to be will hit youth the hardest. As a result, some of the initiatives we've seen on the employers' health tax, significant reductions for small firms, are extremely positive for employment generally and youth unemployment as well.

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Also at the federal level certainly to a lesser extent we have pushed very hard for employment insurance premium reductions. We talked a lot about Paul Martin's fiscal dividend. The fiscal dividend is entirely the surplus in the EI fund, so we don't really think there's a fiscal dividend per se. We think there's misappropriated funds happening from the EI account, but nevertheless we have managed to achieve some reductions in that, and again that has been a positive. Of course, most recently some of the EI reductions have been more than offset by increases in the Canada pension plan.

I might just add that the fact that Ernie Eves has very proactively sought to link EI premium reductions with CPP premium increases, as is slated to take place for the next few years, has had an impact, we believe, and we certainly would encourage that moral suasion to continue as much as possible. The finances look as if we indeed can afford it.

Moving on to some of the other factors, there are reductions in other taxes also, almost up to the payroll tax level.

Again, the issue of property taxes is huge with our members and small firms generally and there is quite a level of concern right now about the devolution of a lot of the decision-making on property taxes to the municipal level. In the past, and of course you can't tar everyone with the same brush, many municipalities, indeed most, have milked the small business sector for unfairly high property taxes as well as licences, fees and all kinds of other levies. We're very concerned that the new draft municipal act, for example, which accords extensive fee and licensing powers to the municipalities, will be abused, because that has been our past experience, unfortunately. As a result, this is something that we'll be keeping a very close eye on and is a growing concern in the tax area for small firms.

Some other factors down the list there that are believed to encourage additional job creation are things like reductions in the businesses' debt load. Through the early 1990s, a lot of businesses took on a fair bit of debt to get themselves through that recession. That's still an irritant, a serious irritant in a lot of areas. There are things like less variability in sales — again, hopefully in this stage of the economic expansion that will take place as well — and the bank credit issue, which I'm going to touch on more fully a bit later.

We also in this survey include capital spending intentions, and we found that overall capital spending plans were expected to remain at about the same level as 1997. As you may know, 1997 was a banner year for investment, much investment in machinery and equipment, for example, as well as a lot of other areas. As a result, duplicating that result is very positive. The sectors we found whose spending plans were especially strong were again manufacturing and wholesale, again very positive because these tend to have big multiplier effects on the rest of the economy. Again, we also found firms with more than 20 employees tended to be the ones with the strongest capital spending plans.

One overall finding of our survey when we looked across the country was that the outlook of the small to medium-sized business community in the provinces which had practised such things as fiscal discipline, had made efforts to lower taxation and had not gotten into new regulatory regimes and initiatives, also had the most upbeat job creation prospects. Again, when we look at history with the StatsCan data and so on, so far they have also had the most robust history in terms of job creation.

I've been with CFIB for over 10 years, and the organization has been around for 27. I can remember preaching some of these things years ago and you were thought to be a lunatic fringe type of element. From a small firm perspective, seeing that that constituency has advocated things like fiscal prudence, low levels of government intervention and so on and so forth, it's quite gratifying in a way to see these things finally practised and indeed yielding a lot of the results that I guess we always expected they would.

I want to make just a few brief comments on the Asian crisis. I agree with John McCallum. We don't see, at least so far, terrible impacts on the Ontario economy, but nevertheless there will be an impact. Again, I guess right now the problem is it's pretty unpredictable as to whether it's going to worsen. From a policy standpoint, it's kind of interesting because as we see, those economies very much practised very centrally controlled power in a few hands. They were not market-directed economies. They controlled what happened to their central banks very much. They enforced a low interest rate policy, things like that, no matter what was happening in the rest of the world and with their trading partners. They placed arbitrary limits on imports from foreign countries. They bailed out businesses endlessly that ran into problems, lent money to a lot of their friends. There was a fair bit of corruption and so on as well, naturally.

It's interesting that some of these policies are very much advocated by people in Canada, such as that the Bank of Canada should be forced to lower interest rates or those types of things. The policies do work for a while. There's no question that from a short-term perspective they do tend to work, but of course, as we saw when they came crashing down late last year, the damage done is very significant and it's going to take an awful long time to rebuild these economies. I guess, if nothing else, the policy lesson from what happened in some of these Asian countries is a pretty interesting one.

Generally, the fact that countries and provinces are less free to practise policies that run counter to what's happening in the rest of the world is viewed as a good trend from a small-firm perspective. Naturally, market forces are what small firms prefer to deal with because they tend to be less preferential, more neutral, and everybody has roughly the same chance instead of the subsidy- interventionist type of process which accords privilege on one business or one individual over another.

I think within Canada there's a similar analogy, because here our provincial governments have quite a lot of power over some very significant economic levers. Some of the worst policy messes we've got into in this country have arisen when our different levels of government have been pursuing opposite or very different kinds of directions. Some good examples include the GST. We saw notably through the early 1990s different fiscal policies being pursued by different provincial governments, which caused terrible distortions. We've seen a mess with interprovincial trade barriers over the years as well.

A recent one that has come up to concern us has been the talk that some provinces want to reform the personal income tax system to permit provinces to apply provincial income tax on the tax base and not as a percentage of the federal portion of the tax. We believe we already have enough problems with different jurisdictions applying different rules and creating distortions among the regions of this country and that we don't need a further balkanization of our tax system on PIT.

I want to move on to the financing environment, and again the recent merger proposal cannot be ignored. From a small business standpoint, we've actually seen some worrisome trends in the banking industry for a number of years now, not just very recently. We've seen a return to a more centralized decision-making approach within the major banks. Through the 1980s we actually saw some decentralization. We saw more autonomy being given to regions and what not, which is something that small firms find positive, when their local person or regional person actually has the autonomy to deal with them without having to consult someone who doesn't even know the business miles away, usually at King and Bay.

We also have found a trend towards a more formula lending approach, and there were always formulas that have been used in bank lending. The small business market is an expensive market to serve; we know that. It's tougher to lend money out in $100,000 chunks than it is in $10-million chunks. You often have to do the due diligence and all that anyway. The trend towards a formula lending approach exclusively is worrisome. Again, formulas will always be used and that's not a problem, but if it's exclusively a formula, you will be cutting off an awful lot of businesses whose numbers maybe don't precisely conform to that particular formula, but if an experienced bank manager goes in and says, "Yes, I know this person has a good track record in business," and evaluates some of those more judgemental factors, that person usually ends up getting the credit if the criteria are right.

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These are a couple of trends, generally, that have been happening over the last few years in Canadian banking. Naturally technology has spurred them along, because one can serve without the human element now in financing, as well as other industries, much more easily. Of course the banks have very much rationalized, they've downsized their employees, they've closed many branches, and naturally it's much more tempting to go to these more automated, formula approaches when there isn't a physical branch present and when they don't have as much staff as they used to have. All of these trends have certainly gone together.

The bank mergers question is a big concern for small business. The obvious issues are simply reduction of already minimal competition in the small business market. There's certainly a lot of bank competition in some markets; we don't find there's a whole heck of a lot for the small business credit market. Banks as well have been pushing for some time about getting into other areas of financial services, retailing of insurance and leasing being one example. They have also virtually taken over the securities business in this country and the trust business. Small firms have not believed that any of these developments have ended up being to their benefit, in fact quite the contrary. The notion of major banks getting even more powerful and even more concentrated and the prospect of even less competition among the different players is not one that small firms view very positively.

In terms of the financing climate for small businesses in Ontario as compared to other provinces, in some of the surveys we've done on this issue, Ontario firms, in a lot of the criteria, fell into roughly the middle of the pack, although there were some really interesting differences. One thing we asked our members was if a firm had applied for a loan or a line of credit over the past three years. The proportion of Ontario businesses that had not done that was the highest in the country, 42.2%. This could be seen as good news, because maybe firms didn't need the financing and that was why they didn't ask for it.

But we followed up with a question as to why they didn't seek financing, and in Ontario 14.1% said they believed the bank was not likely to accept their application. Again, this was the highest proportion in all of the country, which I found rather bizarre in a province that has a huge banking presence, the head offices of virtually all the major institutions and, even when you get away from the schedule A banks, an awful lot of other financial players and so on. These were really rather disturbing results one wouldn't have expected to find in the economic heartland of the country.

It was interesting that John McCallum actually alluded to this a little bit in his comments. We heard from bankers in Ontario in the early 1990s, when the economy was really in the tank, that because Ontario had not seen a recession that serious since the 1930s, basically, a lot of bankers who hadn't experienced this before tended to overreact and really tighten up credit when it wasn't justified by circumstances. The early 1980s recession was much worse out west than it was in Ontario, for example, and a lot of the bankers out west had seen it before. They thought, "Okay, we got through that one." They had that kind of experience. Bankers themselves have actually told us in meetings that they feel there was a squeeze put on in Ontario because the banking industry, always risk-averse, had never seen these conditions before and therefore overreacted to them. I guess our data from the survey could be viewed as a hangover from that kind of phenomenon.

In terms of the firms that did apply for financing, in our survey the acceptance rate in Ontario was 73.4%. This is not bad, it's three quarters, I guess, but this was actually lower than the national average; again, not a finding one would expect to have in Ontario. It was higher than only two other provinces, Nova Scotia and Newfoundland, whose economies are naturally very different than this province's. These were interesting findings and not very encouraging ones.

One other problematic thing we found — and I think it gets to some of the questions you were asking John McCallum earlier — was that we disaggregated the findings on the basis of the size of the business, and we found the treatment of the businesses with less than 20 employees — and these tend to be the younger firms, the firms we expect to see some growth from and what not — had actually worsened relative to their larger counterparts. We've done these surveys now for almost 20 years, so we compare the trends over time. We found the gap in the treatment by financial institutions of the less-than-20s versus the over-20s has widened. This is a concern. One would always expect a newer firm or a smaller firm to have more hurdles to go through to get financing. That's expected and normal. But to see that gap widening, I don't see any reason for that. That's something I find quite problematic, because these smaller ones, first of all, are the most numerous in the economy, and second, we expect them to contribute significantly to our job creation and economic growth in the future.

On the service charge issue, a perennial favourite among small firms, Ontario is the second most dissatisfied province, after Newfoundland. There was a reasonably high degree of dissatisfaction pretty much everywhere. We found the banks laid off service charges in the early 1990s, because in the worst of the recession, when they were posting pretty decent profit numbers despite the economic difficulties and everybody else was losing money hand over fist, I guess they figured they had better cool it on the service charge front, and they did for a few years. Lately, however, we've found this whole issue has been very much revived by the banks and service charge increases and new charges are once again a growth industry. The data in our survey certainly reflected that. There's no question too that the banks are getting a larger proportion of their income from service charges than they used to, so it's very much a cash cow.

I might note that on the competition issue, again touching on the merger question, we have always found in regions that have some competition, service charge levels are lower, not surprisingly. One can shop around. The notion of two major institutions merging — and this has been the experience of the US as well with major bank mergers — tends to significantly increase the service charge levels, because the market will bear more when you have a virtual monopoly, or certainly less competition.

Just before I close, I'd like to make a few general comments on government economic policy and government behaviour. As I mentioned earlier, our organization has been around for about 27 years and we've made some historical observations over time. One of them is that the longer a government stays in power, no matter how it originally approached issues, the more difficult it seems to be to resist getting into more interventionist policies. We see these often targeted at sectors like the high-tech sector or the export-oriented sector and so on. We've never, however, really found these policies to be particularly productive. They just seem to be very tempting. The desire to be activist and hands-on is something I guess we all can see as appealing, but we have never found these policies work to the benefit of the small business community, and we don't believe they work to the benefit of the economy generally.

Here in Ontario we're looking at the prospect of a balanced budget in the not-too-distant future. At the federal level we're going to see one imminently, I would suspect. I think at this point it's important to note that a lot of willpower is going to be required of politicians and people who work in governments to not declare victory too early over the deficits and the debt that we face. Our members are very concerned that we'll repeat the mistakes that we made in the late 1980s, when governments spent very big and justified their behaviour because the economy was growing quite significantly at that time. Of course, when it crashed to earth in the early 1990s, taxes in many areas actually had to be increased, which naturally made things worse, and spending cuts also imposed even worse hardship on people than was necessary.

Right now we're very much moving in the right direction in Ontario, and elsewhere in the country by and large, and as a result governments have a lot of ability to ensure that we continue on this path to establish debt reduction schedules — not simply deficit elimination, but debt reduction schedules — and ultimately elimination of the debt. When we look at public opinion polls, most Canadians seem to agree that this would be a good course to follow, so even from a political standpoint it would probably not be negative.

I'll just make a couple of brief comments on the Quebec issue. Recently, we've seen talk about a snap provincial election. A lot of people have to factor these kinds of issues into their forecasts. Certainly in Ontario our economy is very linked with that of Quebec and we have to consider these possibilities. I think one thing that's worth noting is the fact that we as governments are getting out of debt — not out of debt per se, but getting deficits under control — reducing foreign-held debt — to varying degrees, of course, in different jurisdictions — but this is a positive factor as well for the impact of political factors, because it gives us more stability, it gives us more fiscal sovereignty, and the less we owe to foreign bondholders and what not, who frequently have a very poor understanding of what's going on in Canada and behave in a very knee-jerk kind of fashion, the better it is for our own stability about any kind of political upsets that we might encounter.

1110

Just to conclude, our constituency is quite upbeat right now. We see a year of quite solid and hopefully increasing

broadly based economic growth for 1998. Small firms in Ontario have received positively the general direction of economic policy under the current government, although there is considerable concern over the fallout from such things as property tax reform. We think overall, though, that a policy environment that's based upon reduction of taxes, reduction of government regulation and red tape on business and individuals generally, and continued prudence on the public spending front will permit Ontario entrepreneurs to plan and invest with confidence, grow their businesses and create more jobs. As a result, Ontario's economy will also have a better base for more medium-term stability as well.

Thank you very much. I'd be happy to try to answer any questions you have.

The Chair: Thank you very much. We have approximately six or seven minutes per caucus. We'll start with the government caucus.

Mr Hastings: Ms Swift, I'm wondering whether you're planning on serving your members further in terms of the potential adverse impacts from the Asian fallout. What I'm particularly concerned about, having talked to some business folks in my riding, is the retail sector, particularly consumer packaged goods, the electronics field; that we may have, because of deflation, laptop computers and your boom-box-type music presentations coming in here at maybe $200 or $300. How will that ring itself out in the retail sector?

Ms Swift: Not too badly in the retail sector, because they're not making them, they're just selling them. If we have a rush on to purchase these things, I think we'll probably see a lot of positives come out of that. What we've seen, so far anyway — and although we don't have immediate plans to do another survey we're keeping an eye on it, and if something does pop up, we certainly will — is that BC's economy, for all the obvious reasons, has been the one that has really been hit. The other types of impacts deal more with the commodity prices, because of course as the Asian economies have gotten into trouble their demand for resources has fallen, and as a result that hits us very hard, but it notably hits certain regions of the country: Alberta, Saskatchewan and of course British Columbia. Naturally, some of the other effects, which I think John McCallum alluded to, are what may or may not happen with interest rates, which will affect everybody, and the American economy. If the American economy gets more protectionist, we know that does tend to rub off somewhat on us as well.

From a strict retail/wholesale perspective, for one thing we don't manufacture that stuff in this country, we're not manufacturers of all that, so if anything, there might actually be positives. If consumers go out and can save some money on one item, then presumably they'll spend some more money that they might have spent there on something else. That might not be a terrible thing, and retailers are going to get their margins or whatever. Because we don't manufacture that kind of stuff here — it's a very blunt perspective, but I can't see it being terrible.

Mr Hastings: How about with respect to the automobile sector, where you could have a more adverse effect?

Ms Swift: Yes, that's obviously more of an issue, but undercutting in the auto sector, which one can't rule out necessarily, is harder to do now, because all the major foreign players are producing stuff in North America. As a result, they're cutting their own throats, since they have their plants in Canada and the US and what not. Although there may be attempts at it, I can't see them being significant and I can't see them being sustained, because these guys, most of the stuff they supply to this market right now is made here. There were all kinds of reasons they did that in the first place, with trade barriers and so on. I guess I see more of an impact on the US, where they actually manufacture more of those types of products that are also made in some of the Asian countries.

But again, right now, because we're in the midst of it, it is tough to predict whether there is going to be more fallout from it, but for the moment, I guess the consensus that most of the people observing it have come to is that we're not expecting huge negative impacts in Canada or in Ontario.

Mr Hastings: Thank you very much.

Mr Baird: One of the big issues on your chart was payroll taxes. What do you think the effect on your members has been of the elimination of the employer health tax for small businesses?

Ms Swift: It's been hugely positive. We did some surveying specifically on that issue, actually about a year ago. I remember it wasn't quite a year ago now. I think it was last spring or something like that.

We found that it had quite an impetus to hiring, because that was a pretty significant payroll tax and the paperwork also is an issue. It's not always just the money; it's the added aggravation and what not. I think about a quarter of firms, if I recall correctly, planned to increase hiring or not reduce hiring as a result of the EHT change. We find payroll taxes from the jobs standpoint certainly seem to be viewed as the most negative. Other taxes have their impacts as well, but from just the employers' standpoint, we feel the more we can reduce payroll taxes the better.

There has been a lot of talk too. I might just note that payroll taxes are lower in Canada than they are in Europe. Mind you, Europe hasn't created a net new job in so long that I don't quite know why we would want to reduce ourselves to that level, and even in some US jurisdictions. But what's interesting is there has been some research to show that the employer-paid portion of payroll taxes, because of the mix and the say it works out in Canada, is actually higher, so you have to dig a little beyond just sort of superficial numbers.

The Chair: I'll have to interrupt you and move to the Liberal Party. That is Mr Kwinter.

Mr Kwinter: I have two questions for you. I was at a breakfast meeting this morning and I heard a rather startling fact. A businessman said he pays more in realty taxes than he pays in rent.

Ms Swift: That's scary.

Mr Kwinter: It is very scary. I was curious to know whether you've heard that through your membership, whether that is an isolated case or is really happening right across the province.

Ms Swift: Was this a recent development? I'm curious because recently there have been an awful lot of prospective changes in rents and what not, anticipating changes in the property tax regime. Was this a recent or a long-standing kind of —

Mr Kwinter: No, I think this was recent.

Ms Swift: Fairly recent. I don't know that I've heard that particular example. Judith, I don't know if you've heard that kind of thing specifically.

Ms Judith Andrew: No.

Ms Swift: There is no question that it's a huge problem and a growing problem as governments right across the country have been passing things down.

Ms Andrew: We did a massive study of our members right across the country, and the Ontario portion showed that businesses are on average paying double the taxes that residents are paying for properties of the same value. Here in Metro that burden is triple. Of course Ontario is the property tax capital of the world. It is higher than in other provinces in Canada and in all of the OECD countries in terms of the proportion of property and wealth taxes we extract here in this province. It could very well work out to be the example you just mentioned.

Ms Swift: I sure wouldn't rule it out. It is a really major concern and in fact probably one of the key ones for our members right now in Ontario, given all the policy changes in that area.

The study Judith talks about we put out late last year and there was the outcry from some of these municipal governments that really hadn't been questioned on an awful lot of these issues before and really felt that any changes meant automatic increases in taxes — there was never any question, in some people's minds. It's not fair to tar everybody because some of them have been pretty sensible, but it really is the last bastion of spending restraint that has yet to happen, in many instances.

Mr Kwinter: The other question I have for you is that the government is contemplating introducing VLTs. The projections are that will take anywhere from $700 million to $1 billion out of the economy. What do your members feel about that? Do they see that as a positive on some sides or is it something they've looked at?

Ms Swift: We haven't actually looked at that issue. I think a number of years ago we asked some related question because there was some issue as to who was going to administer these: Would they be a strictly government thing or would the private sector be able to participate in them and so forth?

For our members perhaps this is an area we should do some more extensive work in because it seems to be growing all over the place in this country, and elsewhere for that matter. Perhaps we should do some more research there. But we haven't done that particular survey yet, no.

1120

Mr Phillips: The majority of property tax for business is now set by the province, as you know. It's no longer a municipal responsibility. Those taxes will be set by the province, and in fact they were announced last week. There was no debate on it; they were just announced; no vote on it, no discussion. For your members, for whom you indicate property taxes are a huge issue, they were all set last week. They will vary widely, as you know, from a business that's assessed at $500,000, which will not be a large business — in Hamilton they'll pay somewhere around $19,000 in taxes, and in somewhere like Parry Sound they'll pay around $5,000 in taxes, so there's going to be some wide variation across the province. The CFIB commented on that. Do you have any suggestions for this committee on it?

Ms Swift: On the property tax issue, naturally, an organization like ours which has an extremely broadly based constituency has the same conundrum in many ways as do decision-makers on this issue. We know the system was in dire straits and needed some serious fixing in a number of different areas, but whatever you do you're going to annoy probably about half the constituents in any group, certainly like ours, just like the residents of Ontario or whatever. So we have done a lot of research on property tax and it's always looking for lesser evils. There just don't seem to be good answers because the problems have built up over decades. Judith has actually done way more in-depth stuff on this in the recent past than I have, so I might ask her to make a couple of comments.

Ms Andrew: If we had seen an announcement last week calling for a uniform rate — I know there were several local business groups and local politicians who felt that would have been the appropriate thing to do — from our perspective, a uniform rate couldn't have come without having a threshold for small business because the uniform rate, of course, implies tax increases for something in excess of 500 municipalities in the province.

Our perspective on this is that taxes are very punitive here in Metro. Our members are really suffering. They're paying triple the taxes that residents are paying, but it's very hard to justify a share-the-misery policy between businesses when the real culprit is the fact there is this big business-residential gap. Until we get that gap closed we're never going to have accountability for local spending because we're not going to have the taxpayers who are the resident voters paying for the services they're enjoying. It's always been the case that businesses are shouldering more of the load than they should. Until we can narrow that business-residential gap, we're never going to get the accountability for local spending.

At this period of time it's very difficult because there are these arguments between businesses, depending on where they're located, and the ones most ill-treated naturally want to share their misery, but is a share-the-misery policy the right way to go or should we work at the real problem? That's what we want to do, to get narrow ranges of fairness and eventually eliminate that business-residential gap.

Mr Silipo: One of the issues I wanted to ask you to comment more about was this property tax issue. It follows very well from the last comment you made. Would a solution — I hear what you're saying in terms of not setting a uniform rate across the province, but for example, here in the GTA, would moving towards a uniform rate across the GTA, even phasing that in over a period of time, be a solution from the perspective of your members, or when you say you've got to get at the more fundamental issue, does that mean shifting more of the costs of the property tax system from the business side to the residential side, or just to make it even more complicated, an even more fundamental shift, suggesting that what we should be doing is looking at whether many of those costs are appropriate to be on the property tax base at all, rather than, whatever differences we may have about the appropriate level of expenditure on those services, whatever that may be, whether in many cases because it's dealing with education, social services etc maybe the more appropriate place for those is not on the property tax base at all, but on the array of provincial taxes that are available.

Ms Andrew: On that last issue we have some direction from our members, admittedly very old, but they tend to believe that services to people should be paid for by people, services to property be paid for by property, and we have an old vote that would have had the provincial government handle the cost of education, not on municipal property taxes, so in the final analysis we need to be doing more work and be thinking in those terms.

In answer to your first question, about whether a uniform rate for the GTA would be appropriate, I guess the argument there is that Metro businesses are disadvantaged relative to the 905 belt, but then if we share that misery with the 905 belt, will we have businesses fleeing to Orangeville and Sutton? Our preference is to work at that business-residential gap and try to get accountability for local spending. Then we might find, for instance, that the total quantum of property taxes isn't as high as it was before because the voters are now paying the shot for the services they're enjoying and are not willing to pay for things that perhaps are currently being provided.

There are some of those issues, but this is going to be a long-term process, to get this system back into balance, and very much part of the question is really rethinking what we pay for on the property tax base. The property tax is a profit-insensitive tax, just like payroll taxes, and it hits before a business makes the first penny of profit. It is very damaging to local communities. If local governments in a shortsighted fashion try to load more of the taxes on to business, they're damaging their local economic development and the potential job creation that might have flown from that. There are a lot of complicated issues there.

Mr Silipo: The other question I wanted to ask had to do with going back to one of the slides you had on the conditions that most largely affect hiring, increasing jobs. Number one, as you pointed out, is greater consumer demand. As you said, it's an obvious one, but one I'd like to get your observations on beyond what you said earlier. When you weave that together with the impact or benefits, depending which word you want to use, of the tax cut, you look at the fact that for half the taxpayers of the province the amount they are receiving is, I would argue, fairly insignificant at the end of the day in terms of the whole benefit of the tax cut, woven in against some of the other increases people are having to pay. Doesn't that then turn around and have a negative impact of not creating that kind of customer demand that we may want?

Ms Swift: Because people's expectations might be different than what happens, you mean?

Mr Silipo: Simply because people realize they actually don't have a lot more money in their pockets to be able to go out and spend.

Ms Swift: The money is collectively huge, when you look at currently roughly over \$3 billion, ultimately \$4.5 billion, or thereabouts, injected back into the economy, or somewhere. I think over time it has an impact as well, because in any one year, you're right, some of those numbers, \$1,000 a year or whatever it may happen to be, is not enormous. Part of the problem too has been that other costs have also gone up, whether it's CPP premiums or whatever, so overall one might not notice a whole big impact when you get your net income.

What we've seen, and again it's our members, and our members are business people, but they also tend to be reasonably — unlike if you survey a bunch of corporate CEOs, if you survey a bunch of our guys, our guys naturally tend to reflect more the views of a community than the corporate universe or whatever. I think part of it is confidence-related as opposed to even as much tangible, because one area of taxes, at least, is starting to move in the right direction. Of course, at a time, too — in economics, goodness knows, there are so many things happening at the same time, one can never attribute anything to one cause legitimately, although people may try. Here we've got a tax cut happening when the economy is already expanding because of other factors such as growth in the US and low interest rates etc, so I would argue it has a more beneficial effect now because people are feeling better because of a bunch of other things as well.

I don't know if I see any negatives. I guess the only negative could be if people didn't understand or didn't read what the actual numbers were and thought it was going to be more of a bonanza or something than it really was. But with the number of things all happening at the same time — employment is growing, people are feeling better about their prospects and so on; the retail spending numbers for December just came out and they're up 12% or something from the previous year — I think we're seeing the evidence. The important thing now is hopefully to keep that rolling for a while so that it will, again, spread out among a greater base of people and hopefully end up with more job creation and so on.

I note on the job creation point — this is an unconnected point, but I don't think I have touched on it — so many of our members right now are looking for people and can't find them. It is appalling with the high rate of employment we've got. We have a huge structural unem-

ployment problem, not just in Ontario but everywhere in the country, and I think that might be one of the biggest policy challenges that we have to deal with over the next little while. It's not a lack of jobs, they'll tell you.

The Chair: I'm going to have to interrupt you there, but thank you very much for your comments and for your time this morning. We appreciate it.

Ms Swift: Thank you.

The Chair: The next presenter is the Rubbery Warehouse Store. Is someone here from the presenter for 11:30?

We don't appear to have anybody here, and of course, because the break follows, we don't have anybody in reserve. I suggest we take five minutes and see if they appear. If not, we'll adjourn at that time for the recess.

The committee recessed from 1133 to 1140.

RUBBERY WAREHOUSE STORE

The Chair: The next presenter is the Rubbery Warehouse Store. Please come forward. Good morning and thank you very much for coming. Please identify yourselves and proceed.

Ms Janine DeFreitas: I'm Janine DeFreitas, the owner of the Rubbery Warehouse Store.

Ms Barbara Herbertz: My name's Barb Herbertz and I'm the business manager for the Rubbery Warehouse Store.

Ms DeFreitas: I started the Rubbery Warehouse Store. I worked for Rubbermaid for six years and then decided that there was no one place where consumers could get everything that Rubbermaid made. So back in September 1996 I opened up the first and only full-line Rubbermaid store. It was in 10,000 square feet in Mississauga. After about six months, business was so great it was booming. We expanded to 20,000 square feet at the same power centre. We doubled our projections. We projected about $1.5 million and within our first year we did just under $3 million. From there, sales are still great. We had a soft Christmas, but January has been phenomenal for us.

That's kind of our business in a nutshell. We carry all seven of Rubbermaid's divisions, everything from Little Tikes products, Graco to health care, housewares, seasonal garden sheds and coolers.

What really helped me get started was the government assistance programs. I did apply for a small business loan. I guess the whole reason why I got funding was the fact that the government did have the small business loan and the banks backed me up. I got that in 1996.

The Halton Region Business Development Centre helped me out as well, because they had consultants who helped me, talked to me, gave me some financial background on different companies, helped me put my business plan together. I also found little literature books there on what the government could do for me. Then this year we find out that we'll probably qualify for that new hires program, so we'll be able to get some rebate there. So that's good.

If I had a wish list, though, on how — right now, with a growing business, it's cash flow that's a problem. If the government could somehow help us with our cash flow in the areas where we have our largest expenses, which is rent, taxes and labour, if somehow we could have some kind of tax reduction like a rebate program for the first two years of business, somehow a rebate in one of those three areas, that could really help us out on cash flow. Also, since entrepreneurs invest so much time, energy, sweat — I mean, we invest everything, even our own money — I thought maybe the government could somehow give us a tax reduction on the first $50,000 or something that we earn just to help us through paying the bills.

Last but not least, I had a suggestion about the property tax. I'm just not quite sure why we pay as much property and realty tax and then another business tax on top of that. Personally, I'm paying $50,000 a year in realty tax and another $25,000 in business tax. That's a lot of money, $75,000 that I have to pay out, and I don't really understand where it's going. Also, I don't understand why the landlord is the one to collect it off me. How do I really know that that's what the government requires? I have to wait another six months before I can get answers back from them on what they had to pay the government. So I just thought maybe it would be nicer if I could just pay directly for my own taxes instead of going through a middle person, who could take advantage of us.

Do you have anything to add, Barb?

Ms Herbertz: No, I think you did a great job. You did it all in a nutshell.

The Chair: Thank you very much. We'll start with the Liberal caucus. Any questions?

Mr Phillips: I appreciate your success — I hope success — in your enterprise. On the business tax for a moment, that's all changing, as you probably are aware. The $25,000 of business tax that you talk about no longer is applicable, so you won't be paying that this year. It's gone. It's all realty tax now. What has happened is that most municipalities have taken what you called a business tax and put it on the realty tax. I'm surprised you haven't gotten your new bill from your landlord.

Ms DeFreitas: All they said was that the business tax was going to be included in the realty tax and that it would be 50% of the realty tax. That's it, and then they started taking the money away from me.

Mr Phillips: Right. Just for the committee's information, is the total amount that it now looks like you're going to pay in realty taxes, when you take whatever your landlord is charging you times 12, less than you used to pay for your realty tax and your business occupancy tax?

Ms DeFreitas: That's hard for us to say, because we moved in in September of 1996 and we went through all of 1997 and the government office never contacted us about business tax. So I don't know. I just really started paying this year, rolled into the realty tax.

Mr Phillips: You realize you're on TV now.

Ms DeFreitas: Yes, I know. The government catches up with you eventually. I know I owe for business tax, but they have to somehow —

Mr E.J. Douglas Rollins (Quinte): Send you a bill.

Ms DeFreitas: They have to send me a bill or I don't know how much to pay.

Mr Baird: We'll be adjusting the deficit.

Mr Phillips: For 1997. Anyway, you shouldn't hold your breath is what I'm saying, really, in terms of being able to pay it directly to the government, because the approach has been to put it all on the property, to get rid of the business occupancy tax. That gives the government an asset, if you will, to ensure that the realty taxes are paid. You should expect your realty tax, as I say, to include the amount you would have paid on business occupancy tax or business tax plus realty tax.

I believe the tax rate on the first $200,000 of profit is at 25% and then after that it's at 50%. In other words, there is a lower tax on small business, if you will. You were suggesting a lower tax on the first $50,000, I think, of income.

Ms DeFreitas: Yes, but personal income to the entrepreneur.

Mr Phillips: Personal income?

Ms DeFreitas: Yes.

Mr Phillips: Not business income?

Ms DeFreitas: No, not business.

Mr Phillips: So you'd pay the lower tax rate on business income and then you're recommending that — but just for entrepreneurs, the lower tax?

Ms DeFreitas: Yes, the principal in the business who has put in some of their own money and all the time it takes to get it off the ground.

Mr Phillips: Right. But I think you appreciate there is a lower tax on your business income.

Ms DeFreitas: Yes.

Mr Phillips: So you're just proposing a lower tax on what you —

Ms DeFreitas: I was just trying to think of ways that somehow we can help with the cash flow.

Mr Phillips: Sure. I understand.

The Chair: Thank you. Mr Silipo.

Mr Silipo: One area that I'd be interested in hearing a little bit more from you on is the first point that you made about the benefit you actually derive from the small business loans structure and that it was important or maybe even more than important in helping you get the business started. As I see it, what seems to be more the current approach, certainly of this government at the provincial level, is that the more they get out of that type of assistance and that type of approach to helping business businesses get started, the better it is. What you're saying to us is that your business was able in part, maybe more than in part, to get started because there was a loans program that allowed you to get —

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Ms DeFreitas: Yes, definitely, because I guess it doesn't put as much — what's the word?

Ms Herbertz: Financial strain?

Ms DeFreitas: Well, it's financially the banks, because you're taking away some of the responsibility. If the business fails, then the government is taking some of that pressure away from the banks. I think that's why they were more open to giving me the money.

Mr Baird: Thank you very much for your presentation. I wanted to briefly comment on — and you mentioned it — the business education tax. That issue has got a lot of attention around the committee and in the media in recent weeks. There has been some discussion about going to a uniform rate, so it would be the same rate across the province for business, if you have the same type of business, no matter where you are. That would involve a significant change from the way it operates now. Right now the local councils and school boards have set those rates and there is some inequity around the province. In some areas it's gone up more than in others.

Some people have suggested that because Toronto's rates are so much higher than the rest of the province, in order to reduce taxes for Toronto, we should raise them everywhere else as a way of finding the $500 million. That would be significant if you look across the province. If we were to go to a uniform rate, it would go up in London, Ottawa, Orillia, Kitchener, North Bay, Oshawa, Sault Ste Marie, Mississauga, St Catharines, Barrie, Vaughan, Burlington, Richmond Hill, Sudbury, Kincardine, Huntsville, Parry Sound, and I could go on and on. It would be quite a big tax increase. In fact — this is the chart — it would mean a tax rise in all of those communities to compensate for the city of Toronto. Would going to a uniform rate, if your taxes were to go up considerably in Mississauga, hurt your business?

Ms DeFreitas: Yes. I think that would infuriate a lot of businesses. Paying what we're paying now is squeezing us enough, really, and we are a profitable business and our sales are increasing. I feel sorry for businesses that aren't doing as well as we are. I don't know how they survive. We don't have much overhead. We have excellent margins for retail. I don't know how other businesses do it. We are still going to finish the year with a profit, but not by as much as we'd like. It would hurt us.

Mr Baird: So we'd be better off to freeze it everywhere in Ontario, a 0.0% tax increase everywhere, and not force the rest of the province to pay for the high level that's in the city of Toronto now.

Ms DeFreitas: Oh, yes.

Ms Herbertz: Can I just ask a question, as we're on that topic? I missed it when we were over there with it. Say a company like ours paid, between realty and the business, $75,000 in 1997. For us, we'd want to make sure we paid close to that same amount for 1998. Are we supposed to? I guess that's really the question. That's what we're supposed to, right? When it all settles out and we get the answers from the landlord, the landlord won't give us an answer for another three or four months on what happened in 1997 because his statement isn't audited, supposedly, so he can't even give us an answer on what happened in 1997 for the property and realty.

Mr Baird: We could look at that for you.

Ms Herbertz: Further to what Janine was saying is the fact that we don't want to be had. We want to make sure that what we're supposed to pay, we're going to pay. If it

gets hidden with the landlord, we just want to make sure that it's fair and equal.

Ms DeFreitas: We don't want to be taken advantage of.

Ms Herbertz: The other question we were discussing yesterday on taxes was, what are you doing with our taxes? We pay all this money —

Mr Baird: We're paying interest on the debt, with successive $11-billion deficits and —

Ms Herbertz: I know. Is that the place to take it, though, from businesses that are trying to grow?

Mr Baird: That's why we're cutting taxes for small business.

Mr Rollins: But the last 10 governments said, "Yes, that's where we want it from," and they continued it. Now we've said we're going to stop it.

Ms Herbertz: How about the banks? Take it from the banks for making all that money. That's where you take it from.

Mr Baird: We just passed Bill 164 in December, which requires banks to put more money into small business capital, otherwise they face a tax increase.

Mr Silipo: Although under the new property tax scheme it'll be groups like the banks that will end up paying less in the way of property taxes and businesses like yours that will, overall, end up paying more.

Mr Phillips: So in effect they prefer to keep it the way it was. They're getting a 20% decrease in property taxes, the banks.

The Chair: Ms DeFreitas, might I ask you this? Are you incorporated?

Ms DeFreitas: Yes.

The Chair: And you're aware that your lease covers a couple of the questions you've raised this morning? But that's not to say that simply because it covers it, it can't be audited. You have a good point. You have a very good point with regard to whether or not you're getting exactly what you bargained for and what is covered in your lease.

Ms DeFreitas: It is in the lease. We have the right to have an audited statement, but it's just taking so long. I just would have felt better if I —

The Chair: I'm not talking about the audited statement so much. You're paying a certain amount for your rent. Have you ever measured your space? Do you have a square footage that your lease —

Ms DeFreitas: Yes.

The Chair: Have you ever looked at your proportion of the common elements? Do you pay a common element fee?

Ms Herbertz: Right, common area fee, and that's what they're telling me. They're saying, "It's going to all be broken down but we can't give it to you for another three months."

The Chair: I know, but have you ever sat down and audited your space and the percentage you're paying? What percentage of the overall common areas are you paying, and is that percentage truly representative of the space in the overall building?

Ms DeFreitas: It's not broken down by percentage, though, in our rent. They just say, "You have to pay this amount of money per square foot."

The Chair: I'd read the lease. I would suspect it probably suggests a percentage in your lease. Maybe it doesn't on yours. In any event, we're out of time. I thank you for coming. You made a couple of very valid points and we appreciate it.

We stand adjourned until 1:30.

The committee recessed from 1157 to 1330.

ONTARIO PUBLIC SERVICE EMPLOYEES UNION

The Chair: Our first presenter this afternoon is Ms Casselman, president of OPSEU. Ms Casselman, welcome. Please introduce the people with you and proceed.

Ms Leah Casselman: Thank you very much. To my left is Tim Little, our legislative liaison, and to my right is Jordan Berger, our supervisor of research for OPSEU.

Good afternoon. I'm Leah Casselman, president of the Ontario Public Service Employees Union. We represent more than 100,000 workers employed directly and indirectly by the Ontario government.

It goes without saying that OPSEU members have a keen interest in what is or is not in the next Ontario budget. As part of the Ontario Alternative Budget Working Group, OPSEU is actively involved in building the alternative to the Common Sense Revolution and preparing for life after Mike Harris.

The alternative budget reveals Premier Harris's broken promises to create 725,000 good jobs and to protect and improve health care and education. The alternative budget also clearly demonstrates that the principal benefit of the tax cut goes to the wealthiest citizens of Ontario. Without the tax cut, the deficit would have been eliminated much sooner than the official goal of 2001, and the drastic cutbacks that we have seen over the past almost three years now would not have been necessary at all. I would urge the committee to pay careful attention to the alternative provincial budget presentation this Friday.

It is high time that members of this government pay attention to the actual impact of government cutbacks. To keep your interest, I will structure my presentation around the key principles that this government thinks will lead it to a second mandate. These are individual responsibility, accountability, safety and security, growth and prosperity, compassion, excellence, choice, public service, respect for human dignity, and self-reliance. In almost every case, the Common Sense Revolution has undermined these principles. The truth is, this government knows the cost of everything but the value of nothing.

First I'll move to individual responsibility. The parliamentary equivalent is, of course, ministerial responsibility. Ministerial responsibility for actions taken in the minister's name is one of the cornerstones of our democratic system, yet when this government decided to close hospitals across the province, they passed on the dirty work to others. By passing Bill 26, the government transferred the

huge responsibility for closing institutions from the Minister of Health to a handpicked commission chaired by a veterinarian.

While the government thought it had also transferred responsibility for psychiatric hospitals to the commission, our lawyers pointed out that this was not the case. In their haste to pass Bill 26, the civil service forgot that the province's own mental health care institutions have a different status than other hospitals under the law. Given the recent public outrage about the treatment of former psychiatric patients and the lack of community services available to them, a concern we have raised over the last two decades, I doubt the Minister of Health is looking forward to exercising her own individual responsibility.

The second important principle is accountability. The question I would pose to this committee is, how accountable has this government been to the taxpayer with regard to privatization? They did not campaign on this issue during the last election, and they are not being frank about their plans for a radically downsized government as we approach the next election.

Let me give you an example. This was the decision to privatize the collection of bad debts. It's a good idea, right? We should be collecting bad debts. Your government determined they wanted to privatize that collection. This was in spite of the fact that a joint report by Management Board Secretariat and our union demonstrated years ago that it is cheaper to use public servants to collect bad debts than the private sector. Unlike private companies, which pocket about a fourth of all moneys collected, every penny collected by public servants is returned to the people of Ontario. Even the Provincial Auditor, in his most recent report, attacked this privatization decision, pointing out that the government has already wasted $3 million of taxpayers' money. Where is the accountability here?

Next, the government seems intent on redefining our notion of safety and security. Without any public debate, the government announced that it would pay a private sector company to build and run a megajail. It's ironic that this contract, if it is tendered, will no doubt go to one of the huge American prison companies. Why is this ironic? Because the American experience clearly shows that prison privatization leads to higher costs over time. This was recently confirmed by a report from the General Accounting Office of the US Congress. I guess the private sector consultants didn't point that out.

Our correctional officer members know full well that the only way a big US firm like Wackenhut or the Corrections Corp of America can make a profit from prisons is to hire inexperienced, minimum-wage staff and to restrict as much as possible the freedom of inmates. Neither of these innovations will do much to protect our communities when these inmates are finally released from prison. We are putting the government on notice that we will fight for jails that are safe and manageable inside so that communities can be safe outside.

Most recently, the government announced plans to offload its young offender facilities, including the Syl Apps Centre in Oakville, where I have worked since 1978. This is the first time, to my knowledge, that any government has directly targeted the job of the president of the Ontario Public Service Employees Union, and there was no warning whatsoever.

Whatever the government's intended message might have been, it is sadly mistaken if it believes that we will back off our struggle to protect our public services and the workers who provide them. We know where this government is headed in the future and, after three years of fighting back, we know how to make them blink. There is only one way to defeat a bully, and that's to stand up to him.

Given the government's embarrassing experience with private boot camps, I am frankly surprised that the government would attempt to fob off its responsibility for these very troubled, high-risk kids. When kids escaped from the private boot camp in Orillia, residents were told to lock their doors and stay inside. What did the government do? They turned to the professional correctional officers, whom we represent, to restore order.

Finally, you might be interested to hear that Britain has just announced that it is closing its first and only private boot camp. Not surprisingly, the government found out that the private institution was less effective and more expensive than public facilities.

The next principles to consider are growth and prosperity. Who would deny that Ontario's economy is currently expanding? After years of decline, real wages are finally increasing in the private sector, by 2.6% last year alone. In the public sector, however, our wages continue to decline relative to the general population. After inflation is taken into account, workers in the Ontario public service receive 6% less on their paycheques today than they did five years ago. Yet the government decided to give deputy ministers pay raises as high as $60,000 a year — but only if they cut as deeply and as cruelly as possible. The expectations made of those remaining public servants are just as high, but they get absolutely no recognition, monetary or otherwise, of their daily contribution.

We do not think it is too much to ask this government, which has taken so much from us, to give a little back to front-line workers, and we will be bringing a strong message to the bargaining table this year that we deserve and will fight for a raise. I would suggest that the committee members pass on this warning to Ernie Eves. If he has not already budgeted for an increase in the OPS wages, he had better find room now, to avoid embarrassment further down the road.

Another principle that this government apparently holds dear is that of compassion. However, the most vulnerable members of our society, children living in poverty, have not experienced any compassion from this government. Despite repeated warnings about the outrageous caseloads facing children's aid society workers, the government consistently refuses to address this serious lack of resources.

A report last year revealed that 100 children supervised by children's aid societies had died over the past two

years. Twelve were murdered; six took their own lives. Finally we had a response from the minister responsible. What was that response? More support and training for welfare workers. What happened after the public outrage over these deaths had passed? Nothing — merely putting back a few dollars to try to pretend that made up for the millions they had already stripped out of the system. The future is not bright if this is the kind of compassion we are teaching our children.

1340

Turning to excellence, the sixth core principle of the Tory party, let us consider the government's progress in the area of education. As we saw with Bill 160, the main priority of this government is removing funding from the education system. I must admit you are doing an excellent job there.

At OPSEU, we have seen a similar approach taken to the community college system in Ontario. Our college programs provided by our members produce the educated workforce that will power our economy in the years to come, and yet despite a growing population and economy, fully 20% of college faculty positions have been cut over the last three years. Fewer and fewer professors serve more and more students, again without any adjustment in their pay. Excellent education used to be enjoyed by all citizens of Ontario. Now it is increasingly limited to the privileged few.

Now the principle of choice. The recent municipal elections offer an interesting insight into this government's notion of choice. Not only did the Harris government completely ignore the strongly expressed rejection of amalgamation by the majority of voters; they further undermined the whole election by privatizing the enumeration process. It was no coincidence that the first voters' list prepared by a private company — in this case, American Express — was a complete and utter disaster. How can people exercise the fundamental choice that they should have in a democracy — to vote — when they are excluded, quite frankly, from the voters' list? Of course, those who were most likely to be left off the list were the poor and recent immigrants to Canada. Heads should have rolled over that disaster, but of course they won't.

The next principle is most interesting. It's the principle of public service. I must admit to facing some considerable confusion about this one coming from this government. There was a time when the Progressive Conservatives understood the notion of public service, but you'd be hard pressed to find any evidence of this today.

The Common Sense Revolution called for 13,000 jobs to be cut from the Ontario public service. Feeding public cynicism about government, the Common Sense Revolution claimed that waste and redundancy could be removed from the government with little impact on services. As we've seen, the impact on services has in fact been huge. Yet, after cutting over 14,000 positions, the government seems determined to press ahead with many more privatizations, much more downloading and widespread cuts to services.

For some reason, the government feels it has done a good job with the principle of respect for human dignity. It has been said that a society should be judged by the way it treats its weakest members. Here it is instructive to return again to mental health care reform. Who is more vulnerable to social pressures, more deserving of public support and professional care than the thousands of Ontarians who suffer from serious mental illness?

The Provincial Auditor has recently condemned the government for the lack of control it exercises over money being transferred to community mental health care. According to the auditor, "The Ministry [of Health] did not obtain sufficient data to assess whether agreed-upon services had been provided." Yet despite the fact that the ministry cannot even show that community services are being provided, and despite the mounting evidence that deinstitutionalization really means a life in poverty on the streets, the government is determined to press ahead with even more closures.

It is abundantly clear that many of those former patients who are not ready to return to their communities are a danger to themselves and to others. This is only aggravated by the fact that these patients must cope with the staggering cutbacks in social services and welfare payments imposed by this government, and an increasing number of them are ending up in a different kind of institution — the prison system — where the punishment they receive is in no way to be seen as fitting their crime.

Finally we arrive at the last principle, that of self-reliance. Here at last the Harris government may be on stronger ground. They have been quite consistent here, arguing that all Ontarians should be equally self-reliant, whether you are a bank president or a low-income single parent, whether you are a government consultant trying to gut the welfare system or a former psychiatric patient struggling with welfare cuts.

So, in conclusion, I would like to thank the committee for offering us the opportunity to discuss with you the most important consequences of fiscal decisions. In particular I would urge the government members of this committee to look beyond the bottom line. You see, OPSEU members face the human consequences of your policies each and every day, and we are getting very angry. But have no doubt, we will not be silenced, regardless of what actions you take.

The Chair: Thank you very much. We have about four minutes per caucus, starting with the NDP.

Mr Silipo: Ms Casselman, thank you very much for your presentation. It is a very clear and very strong position you have taken. I wanted to just pick up on one of the principles you outlined, that of choice, and to bring another element to this and ask for your comments. It has become clearer and clearer that the government has some interesting choices and some important choices ahead of them beyond the political choices they have made, some of which you have outlined.

It's clear to us when we look at the information the Minister of Finance gave to us just yesterday that with the growth in revenues — we can argue about whether they

had purposely underestimated those to be able to show that now they were reducing the deficit by an even greater amount. Whatever the case may be, the truth is that now one choice they could make would be to say, "We're going to still keep the push down to reduce the deficit, but not proceed with some of the cuts," for example, in children's services, in education, which can only make the whole of our society, as you've clearly pointed out, a worse place to be in. In fact, it's going to mean it's going to cost us all more at the end of the day.

I just want to add that as one element or perhaps one clear example of a place where even with all the bad choices the government has made so far, they have an opportunity at this point in the process at least to sort of turn it around in one piece. I'd be interested in your reaction to that, or any other pieces around that you may want to comment on.

Ms Casselman: We've seen quite a few budgets from this government during their term, so they have a lot of experience in developing them. Clearly, coming towards the end of their mandate they have some very serious choices to make and I think most of the choices the government will make will be with regard to when the next provincial election will be.

I don't have any confidence that the government will be reviewing any of their cuts in light of compassion or choice or the quality of public services. As I heard the Premier yesterday in one of his round tables, it will be more about how they can spend a little bit now to get the public to think that what they're doing is working. They've ripped up the patchwork quilt we've had of social services and they want to make it into a pillowcase. I don't think there is going to be much in the budget other than election platforming, quite frankly.

1350

Mr Terence H. Young (Halton Centre): Thank you very much. In your presentation you said the government is determined to press ahead with even more closures in mental health institutions. In reality, this has been happening since the 1960s and it's been successive governments. What we did in the past was we isolated mental health patients. We put them out of sight and out of mind. To move them back into the community, closer to the community and family and friends, is in many cases the absolute, right thing to do. In fact, the former Minister of Health, Jim Wilson, put a moratorium on these closures last year. He invested $25 million in new mental health programs.

But what I want to ask you is this: The St Thomas institution is at 21% capacity, and in Hamilton I think they have about 200 patients right now in an institution that 20 years ago used to house maybe 1,700 patients, so it seems to be at around 10% to 15% of its capacity. Does it make sense to keep these institutions open when the beds could be provided in hospitals and in the community, which is what the Health Services Restructuring Commission is recommending?

Ms Casselman: You can play with numbers all you want. I guess it depends on how many beds you have open. If you want to talk about the waiting list to get into St Thomas, you should look at that because there are waiting lists in most of those facilities.

There are incredible amounts of community services. Both London and St Thomas actually service about 60,000 people in southwestern Ontario. In Hamilton I know they have a huge outpatient group that they look after. The problem has been putting adequate resources in communities. Yes, you can move them back to be with their friends, but if that means they are living on the street in Parkdale with their other friends who got moved there when Lakeshore Psychiatric was closed, that's not an option.

I know there are a whole bunch of people in eastern Ontario who are very grateful for the fact that there was extra space available at Brockville Psychiatric Hospital and Kingston Psychiatric Hospital, because those were used as crisis centres during the ice storm to house a whole bunch of folks, and actually a lot of community programs for mental health patients came in and used those facilities during that crisis.

We're talking about trying to ensure the public can make sure that the government remains accountable for delivering quality mental health care services and that you have a responsibility, if you are going to be closing institutions and moving services to the community, to actually do that, that you don't just strip the money back and give it to your friends for a tax gift.

Mr Young: There are supports in the community.

Ms Casselman: Yes, but we haven't seen them yet. There are no real supports in the community.

Mr Young: I agree with you the key is to have the supports in the community.

Ms Casselman: Exactly.

Mr Baird: In response to your comment that the government doesn't value the work of public servants, I can tell you that in my own family, my father and my stepmother are retired public servants and my sister is a public servant, and certainly in my constituency there are a large number of public servants, and so we certainly do.

We have to look at the broader issue. Just in response to your comments, there are two ways: One way had a $10-billion deficit, had unemployment above 10%, in a five-year period had only 10,000 jobs created in the province despite a huge increase in population; and the other way is by a smaller, more efficient government, which has seen — you mention on your first page Mike Harris's broken promise to create 725,000 jobs.

Ms Casselman: It says "good jobs."

Mr Baird: I think our commitment was 725,000 jobs, and we're at 314,000 net new jobs. For the individual who had no job and got a part-time job, that's a good job.

Ms Casselman: Starbucks is booming in Ontario.

Mr Baird: For the individual who was on welfare and got a job at Starbucks, that's a good job. That's the first step they have into the working world. That works up to the 5,000 $50,000-a-year or $60,000-a-year jobs being created in Northern Telecom in my community.

I guess there are two roads and we have chosen the road that's leading to more jobs, more hope and more

opportunity. We tried the old way. It didn't work. It left more people unemployed. It left more children hungry than had ever been hungry in this province. It left a terrible debt and legacy to the young people of this province which we'll be paying off for many years. There's no social justice in an $11-billion deficit. I think the people of Ontario feel very strongly about that.

Ms Casselman: I guess the most recent affront was the response from the Premier with the announcement of the merger of the banks and how upset he was about the 9,000 folks who would be losing their jobs, and yet we have seen from this government continued cutbacks, layoffs, attempts to privatize, close institutions, stop delivering service. There is the debacle you had over the family support plan. You laid off 300 people across the province and you have ended up hiring more people back to do the same work as the people you laid off across the province. The way you're going about this is absolutely asinine.

The Chair: Thank you. I'm going to have to interrupt you there and move to Mr Kwinter.

Mr Kwinter: Ms Casselman, if you could just clarify for me, in your written presentation you point out that when the public servants were collecting outstanding debts it was transferred to the private sector. The auditor had pointed out that they had wasted — in your text it said $300 million and when you spoke you said $3 million.

Ms Casselman: Sorry, it is $300 million.

Mr Kwinter: I just wanted to know what the figure was.

Ms Casselman: Yes.

Mr Kwinter: I noticed in the projections that the government is planning to reduce program spending in the 1998-99 forecast by 7.4%. I would assume most of that program spending is people. You say that the Common Sense Revolution said they were going to cut 13,000 jobs. Your figure is that it's already at 14,000. What does that represent? Do you have any idea? Have you done those kinds of projections?

Ms Casselman: No, we haven't because unlike other governments — other Tory governments included — there's been consultation. Contrary even to what's printed in the Common Sense Revolution, where they say our organization has good ideas and they'd like to sit down and talk to us, they don't. We end up having to react to ill-thought-out decisions, and now we see the fallout for it with the government being taken to task in the forestry issues up north. Well, all those folks are gone.

The Plastimet fire in Hamilton: The environmental folks are gone.

What we're trying to get the public to understand is that you can cut a whole bunch of programming dollars or make people across the province in small communities where government jobs help that community stay alive — you can do that so much but it's going to come back and bite you, because they are going to lose the service and those smaller communities are going to lose the tax dollars generated from those folks, and you're going to end up with a lot of substandard quality of life for a whole bunch of people, simply because this government doesn't understand the value of quality public services and having public sector workers living in communities and providing service and having government accountable for that.

Mr Kwinter: I don't think anyone objects to the government getting its fiscal house in order, but I know that a lot of my constituents call and say: "I'm paying taxes and I expect some service for those taxes. What is happening is the taxes are being paid and I find I can't access anybody because there's nobody there any more."

Ms Casselman: That's right.

Mr Kwinter: "I'm getting voice mail. I don't talk to people. I don't get anyone getting back to me."

I'm sure you've found the same thing through your membership. I don't know whether you want to share that with us or not.

Ms Casselman: The latest rumour we've heard from the Coopers and Lybrand study the government has going is that they want to get rid of all front-line workers so there won't be anyone even behind the voice mail. All of that will be contracted out or privatized, or the government will simply not do it any more. Most likely the public will end up having to pay a fee. Even though their tax dollars are there, I guess to support all the deputy ministers who are getting the $60,000 raises, they're going to have to pay another fee to get any other kinds of services out of the government because there won't be people there to supply them.

I guess one of the startling examples I learned about the other day was the boondoggle they had in southeastern Ontario with the transfer of Ministry of Transportation work to this IMOS corporation. Former deputy ministers established the company and then got the contract that they'd written the RFP for. They're bidding on doing service for roads. This IMOS company bid is $6,000 and the local municipal folks can do it for $2,000 a kilometre. They're going to have this huge monopoly and they're going to take over all the roads and we're going to end up, as taxpayers, paying through the nose again, or our communities and municipalities are going to pay through the nose, because they're the only game in town. Then you've got to ask, where is the accountability? How do you get to these folks over here who set that model up?

The Chair: Excuse me. I apologize. I have to interrupt. Our time is up. Thank you very much for your presentation, Ms Casselman.

ONTARIO HOTEL
AND MOTEL ASSOCIATION

The Chair: Our next presenter is the Ontario Hotel and Motel Association. Mr Seiling, welcome. Thank you for coming.

Mr Rod Seiling: Thank you, Mr Chairman, for an invitation to appear before you today. My name is Rod Seiling. I'm president of both the Ontario Hotel and Motel Association and the Hotel Association of Metropolitan Toronto. Our membership encompasses some of the largest and some of the smallest operators across the province,

and I should say all across the province. I want to reiterate that.

1400

Times have improved for the accommodation sector but I would like to put it in proper perspective. Occupancy rates are moving up, but average daily room rates are still lagging.

Mr Chairman, before I continue, I'd like to have you take note that Mr Dale Dugan, chair of the Toronto hotel association and general manager of the Hotel Inter-Continental, has joined me.

The Chair: Welcome, Mr Dugan.

Mr Seiling: Occupancy rates are moving up, but average daily room rates are still lagging. For instance, in Toronto the average daily room rates just recently moved past the rates being charged in 1998. A more accurate barometer, I would suggest, to gauge the state of the industry is to look at the return on investment, and that is not at an acceptable level, I can assure you.

The hospitality side of the equation is not as good. Profit levels for the majority of the industry still have not recovered from the recession except for some niche sectors. I will touch on one of the major causes for this later.

One of the key areas I want to discuss with you today is tourism. It is one of Ontario's most important and strategic industries, yet public policy has taken it for granted for too many years and that neglect is reflected in diminishing revenue opportunities for the industry, lost jobs for Ontarians and lost tax revenues for government.

Tourism is the world's largest and fastest-growing industry. Why is it that successive governments have paid lip-service to the industry while watching our business diverted to other provinces and countries? The time has come for public policy to finally recognize the many opportunities in terms of increased economic activity, jobs and incremental tax revenues that are available. Our competitors have adjusted their respective sights to the new economics; so must Ontario. We have expert economists who are prepared to meet with the department of finance representatives to demonstrate the returns on positive public policy for this industry. Hopefully, this committee can facilitate this meeting in the very near future. There is a business case to be made and we are confident such a meeting will clearly demonstrate that case.

Tourism represents the following to Ontario's economy: $10.6 billion annually in economic activity; $5.2 billion in exports, which makes it our fourth largest; $4.3 billion spent by Ontarians, and we know that could be improved; and $1.1 billion annually spent by other Canadians.

Tourism, you should note, is broad-based and is an important business to all regions of Ontario. Many areas in Ontario have or are developing tourism as a major sector of their economy. The industry is a strong creator of jobs all across the province. For instance, it employs 400,000 people directly and indirectly, making it 7% of total employment; it's a major employer of young people, especially people aged 18 to 34; it's a point of entry for those returning to the workforce; and it represents all skill levels.

The tourism industry produces more that its fair share of revenue for government. Approximately one third of every tourism dollar flows to the government. Ontario receives $1.6 billion annually in tourism-generated tax dollars.

Ontario has tremendous upside. It has enormous market potential. Unfortunately, we are not taking advantage of this as we continue to lose market share in a growth market to other Canadian provinces, the United States and other countries worldwide. During the 1990-95 period, business from our key markets dropped by the following: the United States, 3%; the United Kingdom, 13%; Germany, 28%; France, 7%; and Japan, 19%. This represents lost jobs, revenues and taxes as, if you look on attachment I, it will indicate. You'll see four charts there if I can draw your attention to them.

You can see in the chart in the upper left-hand corner what has happened to Ontario's market share of international tourism from 1988 to 1995, going from 1.489 to 0.96. That represents 60,000 lost jobs to Ontario's economy. The chart on the top right-hand side indicates $2.7 billion annual economic activity, and I think for the government, most important, it represents $382 million annually of lost tax revenue.

The reason this has happened and continues to happen is that Ontario is being substantially outmarketed by our competition. For example, both British Columbia and Quebec spend more than twice what Ontario commits to destination marketing, and those figures jump to three to six times if calculated on a per capita basis. At the same time, the province's major tourism destination, which is approximately 40% Tourism Toronto, is being strangled as Tourism Toronto's funding continues to be slashed by the former Metro Toronto. If you'll refer to attachment number II, I'll show you what's happening.

You see Toronto there at funding of $6.9 million annually for destination marketing — that's over 40% of Ontario's tourism, period; Montreal spending $15.1 million, Vancouver $12.3 million and Calgary almost as much as we are. If you look at it province-wide, at the bottom of that chart you'll see Alberta at $7 million, BC at $16 million, Ontario at $13 million and Quebec at $20 million. You can see that we're being outmarketed all across the board, whether it be province-wide or city-wide, and that continues to funnel its way and rebound through the whole market.

This cash crisis is exacerbated by the fact that Ontario has been prevented from fully participating in the successful Canadian Tourism Commission's matching fund destination marketing program, which is $65 million. Other provinces are accessing these funds that should be earmarked for Ontario. What is particularly galling is that Ontario generates about 43% of the funds, yet is unable to play to the extent it should and could. Therefore, other provinces are able to utilize these funds to their benefit and Ontario's detriment.

As indicated earlier, Ontario has market potential. Recent studies indicate that only 9% of travellers in US border states have visited Ontario, but 63% have expressed an interest according to recent surveys. Best of all, we have the types of products they want. Worldwide, tourism is predicted to triple between 1995 and 2015. These numbers clearly demonstrate that opportunities do exist.

However, to capitalize we need to put in place the means to ensure that Ontario becomes a must-see destination. Improved revenue, jobs, particularly for youth, and taxes do follow.

Industry must and can do its part to regain that lost market share. However, government cutbacks in the name of fiscal restraint have hit the industry hard. Since 1990-91, the province's tourism marketing budget has been reduced by 60%.

Last summer the government of the day decided to add about $2.5 million to its domestic tourism marketing budget. Calls to 1-800-Ontario, the tourism information and fulfilment organization, jumped by over 40% immediately. The return on investment to all the stakeholders, including government, was immediate. There was no two- or three-year lag time. I should tell you that the industry norm is about 40% of all calls.

Government must begin to recognize the full benefits tourism can and will bring to all Ontarians if public policy formation begins to recognize it for what it really is, a major industry.

There are other important ingredients required in the area of positive public policy for tourism to reach its potential. Two important areas are taxation and infrastructure.

We congratulate the government for its ongoing effort to reduce the level of taxation in the province, be it property or income. As the accompanying chart indicates, these efforts are needed and cannot be relaxed given the dubious standing we have. If you look at attachment III, you'll see Ontario standing at the top of the list in percentage of taxation on GDP, a dubious standing by any stretch of the imagination.

It is too early to talk about property taxes, as we do not have enough information at hand as yet to report. However, reductions such as the employer health tax, workers' compensation rates and the recent commitment for the LCBO to provide credit to licensees are moves in the right direction. We would also like to comment favourably on the contents of the recent white paper on Ontario Hydro. The move to competition in electricity will have the same positive results for taxpayers and business as did similar moves in the natural gas market. Revenues saved in this area can be used to reinvest to improve a property and to hire new workers. How much of a benefit will ultimately be decided by the costs associated with the nuclear recovery program?

We must comment on the continuing unfair level of taxation on the hospitality industry. We are not going to go through this double taxation step by step, as we raise it yearly, but it is, suffice to say, costing the government revenues and the economy jobs and threatening industry viability. The net result is a final cost of product to the public which has clearly shown it cannot and will not pay. It encourages individuals to look at illegal activities such as smuggling to circumvent the high product costs. The experience in this area with cigarettes is ample proof of this fact. High alcohol taxes have a very negative impact on tourism in general. The relative high cost of beverage alcohol also conveys a perception that Ontario is a high-cost destination.

The relative poor performance of the hospitality industry, we would suggest, is a direct result of this system of double taxation. Changing lifestyles are not to blame, although they certainly will have had some input. One only has to look at the experience in the United States versus Ontario.

We have members with properties in both countries catering to relatively the same clientele. Beverage sales here generate about 8% profit versus 17% in the United States. Cost of product is relative to their profits. The US businesses are able to purchase products on a wholesale basis as well. In Ontario, the licensee costs are about the same as the general public at best. Double taxation and a pricing system where the retailer has to purchase its product at retail price make it very difficult to compete in today's marketplace.

1410

Another example of discrimination is the application of the provincial sales tax. Small, traditional accommodation providers must charge PST while bed and breakfast operators don't. These small motel owners justifiably feel discriminated against by the tax system. This is not a cast of big versus small, I want to point out, but one of equity and equality. These investors feel cheated by the current situation and are only asking for tax fairness.

Owners also ask why they must pay PST on promotional items such as T-shirts, mugs etc, when they don't have to remit GST on these same items. Dropping the requirements for PST would assist owners, especially small businesses, in promoting their business.

Infrastructure is an important issue for the tourism industry as well. Good infrastructure complements in many cases a vital part of the tourism product. A large percentage of Ontario's tourism business is either domestic or from adjoining US border states. It is important to note a good functional highway system is a prerequisite to the movement of tourists as well as goods and services for the economic wellbeing of the province. As such, it is critical the government ensures our highway system is in a good state of repair. To that end, sufficient funds collected via the gas tax must be targeted to ensure this happens.

The province also owns important tourism assets such as Science North, Ontario Place, the Metro Toronto Convention Centre and numerous provincial parks. All are important to the future wellbeing of the tourism industry and it is incumbent that the industry be involved in any discussion relating to their future. There may or may not be better ways and means of operating them, but the in-

dustry needs to be involved in any discussion related to them.

We want to congratulate the Minister of Finance for his efforts to free up capital for small businesses. However, access to capital for our industry, be it large or small, continues to be a major problem. Quite frankly, traditional lending sources are not prepared to extend financing to the industry. If you are looking to build or upgrade your property today, financing is next to impossible to obtain. In today's market, if you're not upgrading your business, you're on the way to being out of business as the consumer demands are such.

If Ontario wants to recapture its lost opportunities in tourism, it must become proactive and lead the way. It is forgoing revenues and jobs, particularly jobs for youth. Tourism is a port of entry for young people and for those who are entering the workforce. In addition to this latter premium, there is a direct return on investment for government in new incremental tax revenues.

There are other indirect benefits for the province as well through an active provincial destination marketing program. Creating a positive public image through tourism also lays the groundwork for other economic development activities, which is an ongoing provincial responsibility. It also has the benefit of making Ontarians feel good about their province.

Tourism, I would suggest, is prepared to do its part. The experience and success of the Canadian Tourism Commission destination marketing initiative has provided a roadmap on how to grow the market. For those of you who may not be aware, the government of Canada created the CTC about three years ago and in doing so funded it at $50 million, up from the previous $15 million that the replaced Tourism Canada had. The matching funding program has been so successful in generating new tourism activity and in the process leveraging new private sector money, the federal government has added another $15 million.

Isn't it time Ontario recognizes the opportunities and becomes a serious investor in this business given the proven return? It is now time for Ontario to put itself back on the tourism roadmap for Ontarians, Canadians and the world.

The Chair: Thank you very much, sir. We have about five minutes per caucus and we will start with the government caucus.

Mr Young: Thanks very much for your interesting and excellent presentation. Do you, through your members, have any creative ideas on how to encourage banks to loan money to small businesses?

Mr Seiling: Outside of having a club?

Mr Young: Outside of mandated lending, I guess. No, any ideas you have, anything.

Mr Seiling: It's a tough one. Banks obviously lend and our industry, as do others, falls in and out of vogue with the banks. The banks' level of the industry during the recession and its aggressive lending policies came back to haunt them and of course now they don't want to touch them with a 10-foot pole. Yet here is an industry that is showing increased returns, especially in the accommodation sector. In talking to corporate people as late as last week saying if you're buying new there's money, but if you're trying to refinance your existing property or reinvest and upgrade your property, there isn't any, outside of giving your firstborn and a few other things as collateral.

Mr Jim Brown: Last year you mentioned the capital and how the banks didn't want to lend to small businesses, and that small businesses were starved for capital in their expansion. So it's still bad, but is it any better at all, or is it just as bad or worse?

Mr Seiling: We're hearing some anecdotal stories of some banks. I understand, for example, the Bank of Nova Scotia seems to be a little better. But it's still a very tough market. The one thing that has changed in the hotel sector would be that there have been a lot of Canadians back in the market, but if you go back and check, that's kind of misleading because there are two major Canadian REITs in the market, but for the traditional business it's still nigh on impossible.

The Chair: Anyone else?

Mr Jim Brown: We've talked before. I have this theory that $10,000 of capital for a small business would probably create two or three new jobs, where it would probably take $200,000 for a big business to create one new job. I think your business is pretty labour-intensive. Would you agree with that kind of —

Mr Seiling: Very much so, and maybe Mr Dugan would like to comment. He employs a sizeable workforce and he can tell you the composition of it. We like to say we're the port of entry for students and for those people who are entering the workforce, and new Canadians.

Mr Jim Brown: So with little amounts of money you could probably do great things for jobs.

Mr Dale Dugan: Yes, without question. People think the jobs that hotels offer are really low-wage-paying jobs, and they're not. The average room clerk makes $11.50 an hour. Most employees at the line level make $24,000 or $25,000 a year. There's no question that during the recessionary years we probably had a head count drop of 20 people in our hotel alone, from 170 down to 150 employees, but hotels are very labour-intensive. It represents 45 cents of every revenue dollar that comes in. That's why banks traditionally do not like to deal with hotels except in the good times, because when a recession comes, hotels have such a fixed expense that the only thing they can change is to reduce head count, and you can only reduce it to a certain level and then you can't operate as a business.

The Chair: We'll move to Mr Kwinter.

Mr Kwinter: Mr Seiling, it's nice to see you again.

Mr Seiling: Likewise.

Mr Kwinter: I think there's a typo on the second page. I just wanted to find out what the base rate was when you talked about rents. It says that in Toronto, the average daily room rate just recently moved past the rates being charged in 1998.

Mr Seiling: Oh, sorry, 1988. I apologize.

Mr Kwinter: No problem; I just wanted to know what that date was, because that's going to lead to my next

question. There's something that I don't quite understand. We have room rates that are just getting to rates that were charged 10 years ago. I travel in different areas and I know that the room rates here are very, very low compared to what you see in Europe and other parts of the world; they're ridiculously low. The dollar is very low. You would think that would be an incredible incentive for people to come to Ontario, to Canada, yet you show figures that we're down 3% from the United States, 13% from the UK, 28% from Germany, 7% from France, 19% from Japan. Why is that happening?

Mr Seiling: Very simply, it's called awareness. We don't have the marketing dollars to tell the people in the rest of the world what a great place Ontario is. What's particularly galling is that this is a growth market. Every jurisdiction in the rest of Canada and the rest of the world has clambered on the tourism bandwagon. It is the fastest-growing industry in the world, yet we continue to try and limp along, and we're losing market share in a growth market. We have this wonderful product, we have this great story with a 69-cent dollar, but we can't get people here.

Mr Kwinter: This has to be one of the great destination spots in the world from an economic point of view.

Mr Seiling: People who come here on average return 17 times, but we're losing out on our market share.

Mr Dugan: It's just a matter that Ontario and Toronto have in the past thought of the border states of New York and Michigan as where the market is for tourism, when in actuality it doesn't cost any more to fly from Los Angeles than it does from Pittsburgh if you stay over a Saturday night. But because of insufficient funds, we haven't been able to reach the major markets of the United States, much less think beyond to such things as Pacific Asia, Europe, where we could actually have 1-800 numbers today where you could call toll-free directly into the different cities. We just haven't had the money to go after that business.

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Mr Kwinter: Can you comment on something else that I've noticed? Three or four years ago, virtually every hotel in Toronto was hanging on by its fingernails. Now the hotel-buying business is very, very buoyant. There are people beating the bushes trying to buy hotels in Toronto. How do you explain that?

Mr Seiling: You don't see any new cranes.

Mr Kwinter: Well, let me tell you, look up the street at the Park Plaza. Someone's putting a pile of dough into that hotel.

Mr Dugan: Primarily, these are foreign investors. They have come to realize that it's much less expensive to buy an existing hotel for $80,000, than to build a hotel for $160,000, per room. They've also realized, as you have just pointed out, that this is a terrific city. Potentially, the average room rate could go up five and six times inflation every year if there's no new supply to the market, and there hasn't been a new hotel built since my hotel eight years ago. In theory, demand should outstrip supply. We're there now, so you should see real growth in average rate, theoretically. But we'll wait and see. The jury is still out on whether we can raise rates by triple and quadruple inflation.

Mr Kwinter: I agree. I think we have a story and we've got to tell it. Without trying to point a finger, when we had our trade offices around the world, we always had tourism offices in there. They were on the ground promoting tourism and we were getting our share. We're not getting it any more. As I say, the value is there; there's no question about it. The destination sites, whatever they are, are there. As you say, there isn't the concentration on promoting this as a world-class destination site.

Mr Dugan: And not only in the summer, when we do well. For instance, in New York, as you know, in December you cannot find a hotel room from December 1 until December 20. Those are all international visitors coming to buy retail product in New York, go to the theatre and go to restaurants. We have all three of those at prices that are so much lower, and if we were to market ourselves as a destination for foreigners to come to shop, it would really be quite successful.

The Chair: I have to interrupt you there and move on to the NDP.

Mr Silipo: Thank you for the presentation. I want to maybe focus just on this question of marketing because, like you, I agree that it continues to be the one big problem — perhaps in your view it's one of a number of problems — that we ought to be addressing. I say this recognizing that the problem is not one that has just been created now; it goes back some time. I appreciate that.

I was very interested in the point you were making that when the current government did invest the $2.5 million in additional money that they put in, you could show very clearly the payoff there in additional tourism dollars that came into the province.

Mr Seiling: As I said earlier, we have respected economists who are prepared to sit down with members of the government, their economists, and there's a business case to be made. We can demonstrate clearly the return on investment for positive public policy in this area. Every other jurisdiction in Canada, in the United States, the world, is focusing on tourism. It's the growth industry; it's the hot industry.

What becomes particularly galling is that with the cutbacks, the tax dollars generated by tourism in Ontario are being used to the benefit of other provinces, so it becomes a double negative. Money from the federal government's CTC program that we can't access here because it's a matching-dollar program is being used, dollars generated here that should be spent here for the benefit of Ontario are being used, to promote other provinces, to our detriment. So while we're losing market share, our partners in Confederation are growing their markets.

Mr Silipo: Growing. That was the other point I wanted to pursue, the Canadian Tourism Commission's matching fund program. Just so I have understood it, there is an overall pot of $65 million that the federal government has put in that folks in the industry could access only if Ontario puts in matching dollars, up to a certain level?

Mr Seiling: That's right. It's a dollar-for-dollar matching program. For instance, I just finished lunch with the president of Tourism Toronto and he said he had just had to turn down three different programs. He has no money. I've talked to representatives from the tourism industry here in Ontario: the same thing. They can't participate. We can't market ourselves to the extent that we need to and they'd like to.

Mr Silipo: What would be required in terms of an actual dollar amount that you would see the government would have to be prepared to invest in this for it to achieve the kinds of things you're saying in terms of being able to have not only the industry reap some of the benefits but obviously the public coffers also being able to show that it's of benefit to everybody?

Mr Dugan: I think you'd want to be certainly on the level of British Columbia. We see that as our biggest competitor, really.

Mr Silipo: Where are they at?

Mr Dugan: Do you have the total, Rod? It's on that report.

Mr Seiling: British Columbia is spending $16 million. Actually, with all respect, I don't think that's enough. Quebec is spending $20 million. What you really need to do is, instead of picking out a number, go to a zero-based project and build a project and say, "For X amount of dollars, we'll generate this amount of business," and at some point you have to say where diminishing returns come in. I'd be reluctant to say that it's X dollars or Y dollars. It's how far and how often can we —

Mr Silipo: What you're saying is that clearly the provincial government has to be prepared to invest more dollars than they're spending now because, as you showed us, relative to other provinces we're spending a lot less in terms of marketing, and the benefits will be reaped —

Mr Dugan: It's such a quick turnaround market. It's such a short window. People respond to an ad within three weeks. That's really what's so terrific, because it's such a tax revenue generator and you can steal market share just through good, effective merchandising and marketing.

Mr Seiling: For example, if Mr Dugan rents 14 more rooms tomorrow, he hires one more person.

Mr Dugan: Right. That's one housekeeper for the day.

Mr Seiling: It just snowballs.

Interjection.

Mr Dugan: Last year was the best year since 1988 as far as occupancy. The hotel community ran 71% occupancy, so 71% of the time. But that primarily happens between June and September, when they're really the busiest. I'd say 100 out of 365 nights, hotels are sold out.

The Chair: Thank you very much, Mr Seiling and Mr Dugan.

ONTARIO FEDERATION OF LABOUR

The Chair: Our next presenter is the Ontario Federation of Labour. Mr Samuelson, the president, will make the presentation, and if you would please introduce your colleague. Welcome, gentlemen.

Mr Wayne Samuelson: Thank you. With me is Ross McClellan, the legislative director at the Ontario Federation of Labour.

I want to begin by saying that I'm pleased to be here today at these hearings. This is in fact my first appearance at a committee as president of the OFL, and I'm especially pleased to have the honour to represent the federation's view on this most important issue of budgetary policy of this provincial government.

In this presentation, I plan on making three points. I want to say at the outset that it is the carefully considered view of the OFL that the budgetary policy of the Harris government is wrong, harmful and destructive to communities, and I'm going to try to explain to you why.

For my first point, let me start with an area where I think we and the finance minister agree, and that is on the importance of a low interest rate policy from the Bank of Canada. Canada and Ontario were plunged into the worst recession in 60 years because of the simultaneous introduction of free trade, the GST and the high interest/zero inflation policies of the Bank of Canada in 1989. Canada and Ontario have had a brief period since 1995 with moderate — not low but moderate — interest rates, and as the OFL predicted in our last two budget submissions, this has resulted in increased economic growth.

This growth could well vanish overnight if the Bank of Canada continues its present trend of higher rates. We call on this committee to urge the Minister of Finance to speak out against a return to the insanity of high interest rates.

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My second point is that the committee and the government need to focus on Ontario's real deficit: the jobs deficit. The 30% cut in the provincial income tax rate is touted as a great creator of jobs. But when we look at the jobs record, it's really hard to be optimistic. While the Bank of Canada has obviously not abandoned its job-killing high interest rate policies, it temporarily moderated them, starting in late 1995.

So after the worst recession in 60 years the Canadian economy finally began to recover as interest rates left the insanity zone. But when we are told that we are in a full-blown recovery, we have to say that does not mean we're getting our jobs back. Let's look at the real job creation record in Ontario. You will all recall that Ontario's economy peaked, in February 1990, at 5.3 million jobs. During the Mulroney recession, between February 1990 and April 1992, Ontario lost 343,000 jobs. In June 1995, when Premier Harris was elected, Ontario had about 5.2 million jobs, the unemployment rate was 8.8% and there were 499,000 people unemployed.

As of January 1998, almost three years later, there are still 478,000 people unemployed. The unemployment rate is 8%. The number of people employed is about 5.5 million.

Between February 1990, eight years ago, and January 1998, the Ontario economy has only generated 223,000 additional jobs. That's about 28,000 added jobs per year. Economists tell us we need to create at least 100,000 jobs

a year just to stand still — to absorb new entrants into the labour market.

Ontario has a crisis of mass unemployment: 1.1 million people are on social assistance. That's 10% of the total population. Levels of unemployment for Ontario's young people are obscene at the official rate of 15%, double the general rate.

Even worse than these official rates of unemployment is the extent of hidden unemployment. If we use what economists call the "employment rate," we can measure the true extent of the crisis. The employment rate is the percentage of working-age Ontarians who are actually employed at any given time. Before the recession Ontario's employment rate was 67%. It plunged to 60% and has stayed there. As of January 1998, it is still at 61.1%.

All this hidden unemployment adds up to 600,000 missing jobs. That's what it would take to return to the employment rate of the late 1980s in Ontario. Add to this the lost jobs between February 1990 and today — about 400,000 in all — and we have a deficit of 1 million jobs in this province. That's Ontario's real deficit, and everything this government is doing is making it worse.

Instead of a major commitment to job creation, especially for young people, we have more of the same neoliberal policies of cutback, downsizing and total reliance on market forces which have created the mess we're in today.

For my third point, let me turn now to this government's budgetary policy.

What's wrong with the government's budget policy can be summed up in two words: tax cut. The tax cut is the out-of-control engine that is driving every aspect of public policy. Because of the tax cut more than $5 billion is being cut from the base budgets of essential public services. We estimate the cost of the tax cut for the year 1997-98 at $3.2 billion. The budget cuts, which amount to about $3.2 billion in actually implemented cuts as of the end of the current fiscal year, match the cost of the Harris tax cut virtually dollar for dollar.

By next year, because of higher than forecast rates of growth, the tax cut will cost about $4.7 billion in forgone revenue, and by the year 2000 it will cost the treasury of Ontario over $6 billion. To pay for this tax cut, assuming the Harris budget is balanced according to plan in the year 2000-01, Ontario will borrow at least an additional $15 billion, plus interest on this new debt. Every dime paid out as tax cut until 2001 is a borrowed dime. So this tax cut exercise has very little to do with prudent financial management, or with eliminating the deficit.

The truth is the deficit could have been eliminated this coming year if the tax cut didn't exist, and the truth is that the deficit could have been eliminated without cutting a penny of program spending from the 1995 base. If the government had chosen to flatline spending at the 1995 level and to combine this with a policy to maintain Ontario's tax revenue base, the deficit could be gone next fiscal year.

Let me be precise. In 1998-99, revenues will be $51.1 billion. The tax cut will cost $4.7 billion. Rescinding the tax cut, given current levels of growth, will generate total revenues of $55.8 billion. With a program spending budget of $47.5 billion, the pre-Harris cut level, the budget would have a $133-million surplus this coming year. That is without any cuts. Instead, Ontario will borrow $15 billion plus to pay for a tax cut to the wealthy that has devastated public programs and services and has still maintained a policy of deficit financing.

Let's look back for a minute at the so-called deficit crisis that was supposed to justify the spending cutbacks. It is now crystal clear that the Ministry of Finance was following the same script as Minister Snobelen when he advised his bureaucrats that to create major change, you have to first create a crisis.

The Minister of Finance raised the alarm about a deficit crisis in 1995, predicting a deficit of over $11 billion and using that excuse to justify $2 billion worth of cuts in July 1995. But we learn a year and a half later that the ministry has underestimated revenue for 1995 by a full $1.6 billion. So the deficit in 1995 was obviously exaggerated. The next year, 1996-97, the budget plan predicted revenues of $46.6 billion. Actual revenue was $49.5 billion. In other words, the ministry understated revenue by a staggering $2.9 billion.

Again this fiscal year, the budget of May 1997 predicted $48.4 billion. But at the end of the third quarter, Ontario Finances reports that the ministry was low yet again, this time by $2.4 billion. We calculate that based on real growth in GDP, real revenue for 1997-98 will be about $51.1 billion; in other words, $2.7 billion higher than predicted in the budget. This is how you go about creating a deficit crisis.

You may argue that spending is higher, but in fact program spending on real programs, services and capital works has been severely cut. The overall level of spending is inflated by the one-time costs of restructuring, the Who Does What exercise, and by the tricks of accrual accounting. We repeat again: If the exercise really has been to balance the books and eliminate the deficit, this could have been done by flatlining expenditures, maintaining the existing tax revenue base and allowing growth over time to end the deficit, in 1998-99.

Let's look at the real cost of this tax cut exercise, the destruction of Ontario's hard-won inheritance of public services and programs.

Our health care system has been completely hammered by a combination of $800 million a year in annual hospital budget cuts, with more to come, and systemic underfunding of long-term care, community care services and mental health services. Thousands of trained, experienced, dedicated health care workers, the backbone of our medicare system, are being fired.

Our hospitals, especially in communities which have been visited by the plague of the Health Services Restructuring Commission, are struggling to keep afloat. Emergency care is in a state of crisis, as anyone who has gone to a hospital recently knows full well. Some doctors have publicly stated that standards of care in some of their hospitals are now below Third World standards.

Half of the new community care agencies, set up only last year to provide essential home-based care services, as well as long-term care, are already running deficits. Our mental health system sends mentally ill people out on to the streets where they end up in jail or worse, freeze to death in the streets.

The cancellation of social housing programs has created a waiting list of 72,000 people for public housing across Ontario and it has condemned thousands to life on the streets.

The education cuts have already deprived thousands of children of junior kindergarten and will create larger and larger class sizes, as Bill 160 and the deputy minister's performance contract do their work in tandem. The idea of equipping our children with a classroom education for the 21st century? Forget it.

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An area where the labour movement is deeply involved, vocational training, is in a state of complete chaos. There isn't a single person in Ontario who can tell you today who is responsible for what.

Environmental protection: The Ministry of the Environment budget was slashed in half. In an emergency like the Hamilton fire, citizens had to turn to Greenpeace to get basic information about the level of airborne toxins threatening them and their families. The Ministry of the Environment was out of business.

Worker protection: In Ontario, enforcement is a thing of the past. Cuts to the Ministry of Labour have left Ontario's labour laws a batch of dead letters. No workers need apply.

Who Does What: Our local government has been turned inside out and upside down. Municipal leaders still don't have a clue what the final numbers will be. Thousands of municipal workers are being frogmarched into new amalgamated workplaces or laid off, with huge additional costs to the taxpayers for restructuring and no sign in sight of any promised savings. What we know for sure is that property taxes are going to increase across the board as the result of the Who Does What downloading, stacked on top of a new market value assessment regime. Any income tax cut that working people will get will be eaten up by user fees and property tax increases.

The welfare cuts have increased the number of people living in abject poverty. In the first year of the welfare cut, between 1995 and 1996, we have learned that the number of families in Ontario whose income is more than 50% below the StatsCan low-income cutoff line increased from 2.1% to 2.8%. That represents an increase of 20,529 Ontario families living in abject poverty in just one year. For single-parent families, the figures are worse. The proportion of Ontario single parent families who are 50% below the poverty line has increased from 10.2% to 12.2%. In one single year that's an increase of 8,434 single parent families living in abject poverty in this province, and it's a disgraceful statistic.

There's more. From a Statistics Canada study commissioned this month by the OFL, we have learned that between 1995 and 1996 the average income of Ontario families in the bottom 20% of the income scale fell by $691. During the same period the average income of the wealthiest Ontario families, in the top 20%, rose by $1,795. Just so you've got that, the bottom 20% lost almost $700; the top 20% increased by almost $1,800. This tells you the whole story about the government's financial policy. It can be summed up in one word — inequality — which brings me to ask a question. Who benefits from this tax cut? In whose name is Ontario's whole social fabric is being destroyed?

The top 20% of the taxpayers are getting 58% of the tax cut. This is according to the Ministry of Finance. In dollar terms, it's simply ridiculous. Taxpayers at or below the average income of $32,500 per year will get an average cut of $350; taxpayers earning over $250,000 will get an average tax break of $15,075.

Just to remind you, out of a total cost of $6 billion in the year 2000, $3.5 billion goes to the wealthiest 20%. This is money that won't be there to ensure a hospital bed is available when we need it. There won't be home care when we need it. There won't be enough teachers in our classrooms, and there will be too many hungry children in our classrooms. Our roads aren't getting plowed when it snows. The air we breathe and the water we drink are once again the playthings of polluters whose bottom line doesn't include the environment.

My single message to the standing committee on finance is this: Tell the Minister of Finance to rescind the entire tax cut. Scrap it. We don't need it. We don't want it. It's dirty money that is causing untold harm to millions of our fellow citizens. It is driving families and children into abject poverty. Put that money back into health care, child care, education, social services, environmental protection, and job creation. It's not too late. It can be done. We urge you to do it.

The Chair: Thank you, Mr Samuelson. We have about four minutes per caucus and we'll start with the official opposition.

Mr Kwinter: Thank you very much, Mr Samuelson, and congratulations on your ascension to the presidency. I want to give you my best wishes and condolences.

Mr Samuelson: I'll take whatever you'll give me.

Mr Kwinter: I'm sure you'll find it a very interesting experience for you.

I was very interested in your presentation. I don't agree with everything you said, but I certainly agree with your underlying premise about the tax cut.

It seems to me that a very interesting point was made by the chief economist at the Royal Bank, John McCallum, this morning. He felt that if you just reduced the tax and nothing else changes, there's no question that will be a stimulus, but if you reduce the tax and then you cut back on services and on welfare and do all of these things, then one may offset the other and you may in fact not get any benefit.

I think what has happened unfortunately — not unfortunately, it's great for us as Ontarians — is that the economy is expanding. Always, inflation was a great healer of a lot of problems, because as inflation went along it cov-

ered up a lot of bad decisions that were made that let that happen. I think we have the same situation here in Ontario. The economy is quite robust. We've heard that from several sources. All you have to do is take a look at the numbers and the revenues the government shows in its financial statements. But I am not convinced, and I've talked to some other economists who are not convinced, that those revenue increases are a direct result of the tax cut. They are coincidental to the tax cut, particularly when you know that every dollar of tax cut is borrowed money. Have you done any projections by the economists that you have available to you as to how much of a stimulus was that tax cut?

Mr Samuelson: I don't know if we've done any specific studies in terms of the degree to which the tax cut has stimulated the economy. We have looked at the impact it's had on the economy. I think there's another way to look at this. Certainly there are those who want to sit down with economists and look at what exactly this has done in the economy. My friends, go out and talk to people. Talk to my sister who works in the health care system and who phones me and tells me about what's happening there, and then you tell me that it makes sense to reduce taxes, or go talk to people who are working in the education sector who see what's going on, or God knows, who work in protecting our environment in northern Ontario.

We need to be real careful. While it's important that we have this comparison and talk about what economists say and what the model shows us, I think looking at Ontario now, after having had these tax cut policies for a number of years, it's time to start talking to people and finding out what's going on. You don't have to go very far to find out. To tell you the truth, you'll probably find out more here, except nobody can get in this damn building any more to tell you. I think, Mr Kwinter, that while I can't tell you what our economists say, I can certainly tell you what the people who phone my office or the people I talk to almost every day are telling me about funding of services and finances in Ontario.

Mr David Christopherson (Hamilton Centre): Thanks for your presentation, Wayne. I'd like to join with Monte in my own words to question why anybody would think even for a moment about running for that job you now have. It's difficult for me to do that, but I will offer again my public congratulations on your win. Let me say for the record that the Ontario Federation of Labour and the labour movement in this province are in excellent hands. I think we all have the utmost confidence in the job you'll do for the people of this province.

To follow on your main theme again, in terms of the tax cut, I attended a meeting last night at Hamilton city hall where all the local MPPs were briefed on the effect of the non-revenue-neutral downloading. In Hamilton, in the documents given out by staff, we're looking at close to $28 million being cut from the Hamilton budget. Of course, anything in that realm would just decimate public services, eliminate by the hundreds decent paying jobs in our community, and that's just one aspect.

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Working people have also seen their WCB protection attacked and unemployment standards protection watered down. You mentioned the Plastimet fire in Hamilton. Not only does it impact the residents, but go talk to the firefighters about their desire to have this thing looked at properly. I would mention that the Minister of the Environment is still refusing to call a public inquiry into that one, I think in large part because he's worried about will come out of the inquiry in terms of his ministry and the cuts and the impacts.

All these things — the attacks on the education system and health care system; user fees going up; property taxes — are happening to pay for the tax cut, and yet the government will consistently say that people support the tax cut and its impacts because they'd rather have this money in their pocket.

Given the hundreds of thousands of people you represent in this province, what are average working people and their families telling you about the tradeoff between what they're getting as a benefit in income tax and what's happening to their communities and services that they and their families need?

Mr Samuelson: I'll look. I don't think I've got many letters in my office that talk about the tax cut. The letters that come to my office are calling on me to stand up for people against an insensitive government that just continually takes away needed services. I can be honest with you in saying that I haven't had one single letter saying: "Get down to Queen's Park and tell Mike Harris he's doing a good job. Thanks for the tax cut."

Mr Young: We got lots.

Mr Baird: You didn't get it yet?

Mr Samuelson: I haven't got any of those. But I'll tell you, the letters I am getting you wouldn't laugh at. They're pretty personal about the impact.

I had a call yesterday from a person who obviously must have talked to Gord from time to time, because he had Gord's private line, who called to talk to me at length about how he wants to do something. He's an injured worker who has been shafted by the government and their changes to workers' compensation. He just feels so helpless because he can't do anything to make the government change its direction. He feels he's not being heard. I think that's what I hear most.

I don't know if the average person out there measures the extra couple of dollars they may have on their paycheque with the fact that when they went to the emergency hospital the night before it was closed, but I think they're going to start doing that. Frankly, I think all of us have a responsibility to point out to people that when you take money out of government and government doesn't have the money to spend, somewhere somebody loses. Collectively, we should start making it clear to people that the reason we can't have money to fund hospitals is because we're giving it to people who already have lots.

Mr Christopherson: I appreciate that. You heard the government members interjecting that they got letters and they'll share them with you. Once you look at the stats

you've provided here that if you're earning $33,000 on average a year, you're getting about $350 as a tax cut, but if you're earning over 250 grand, which I suspect are the kinds of letters and support the government gets, you're taking home $15,000 a year. That buys an awful lot of private education, private health care, private services right now that ordinary working people need.

When we hear the government saying there's all kinds of support, you take a look at who's benefiting from this tax cut and who's paying the price. The very people who need the public services are the ones who are getting pennies in terms of benefits from the tax cut and those who can already afford to sort of check out of the public system are getting, in this case, over $15,000 extra to help them do that. I agree with you; more and more people are going to start to link the fact that the much touted tax cut is not benefiting them, but their communities are being decimated and the services they need are being cut.

Mr Young: The evidence that the tax cuts are creating jobs is in your presentation on page 2. You state that Ontario had 5.241 million jobs in June 1995 and now there are 5.533 million jobs, which is an increase of 292,000. In the last paragraph for some reason you've taken a period from 1990 to talk about the new jobs in Ontario over eight years, and yet when we came in it was an entirely new tax regime. From 1990 to 1995 we had 32 tax increases in Ontario and only net 10,000 jobs. Since then, in two and a half years, we have as of this month over 300,000 net new jobs, created to a large degree —

Mr Samuelson: Because of the tax cut?

Mr Young: — because of the optimism and more money in people's pockets. It's right in your presentation.

What I wanted to ask you about is that you talked about creating a deficit crisis and the tricks of accrual accounting. Do you believe the NDP created a deficit crisis from 1990 to 1995? They borrowed $50 billion that's added to our debt; our debt is around $100 billion. Do you think that was a trick of accounting as well?

Mr Samuelson: I really could care less what the NDP did. I'm worried about what's going on in Ontario today. If you want to go and argue with these guys who were NDP cabinet ministers or whatever, do it on your own time. I'm worried about what's going on today. The reality is that with interest rates there's been a shift over the last couple of years, although it's moderate and we certainly have to worry about what's going to happen in the future, and that to some degree has led to growth in the economy. We don't for a minute suggest that's not true.

However, I can't believe anybody can look at the fiscal policy of this government, say it's good we've had a tax cut and at the same time go back to your ridings and see what's happening in your hospitals and in your communities. What I'm suggesting to you, and you should be talking to your minister about this, is that we need to start looking at the tax cut and that loss of revenue and what it means to us back in our communities, to our hospitals and places like that.

Mr Baird: Thank you very much for your presentation. It certainly gives us a lot to think about. I agree with you that jobs are the number one issue. The deficit is important and it's very important to deal with towards the job front, but jobs is the number one issue for the people of Ontario; it's the number one issue for this government.

There are two routes. We tried the one route for five years; in five years we saw only 10,000 new jobs created. In two and a half years we've seen 314,000 net new jobs created, which is good news. The numbers are right on page 2 and speak for themselves. If increasing taxes 32 times, if bringing in an $11-billion deficit — I remember Mr Laughren talking about a $17-billion deficit as a justification for the social contract. If that route meant more hope and more prosperity, it would be the way to go, but the reality is it left more people unemployed and child poverty reached levels we had never seen before in this province, with those policies.

The tax cut, coupled with the other measures, whether it's the employer health tax or other measures, is all about helping create a climate for job creation. I go back to my community and I see the small business owner who's hired two more people; I look and see four or five cranes at the Nortel expansion; I look at the retail sector, which is expanding. My community suffered more from government restructuring than any community in the country, with 20,000 jobs scaled back when the federal Liberals downsized in 1994-95. I just think if that strategy worked, we would have more jobs today, but the reality is that we didn't, and that's why I think the people of Ontario wanted to change course. But you've given us a lot to think about here and it is appreciated, and I certainly will reflect on it.

The Chair: Thank you very much. We're out of time. I appreciate your presentation, sir.

ONTARIO SECONDARY SCHOOL TEACHERS' FEDERATION

The Chair: The next presentation is from the Ontario Secondary School Teachers' Federation, Mr Manners, president. Welcome, sir.

Mr Earl Manners: Thank you for the opportunity to be here. I'd like to also introduce Mark Ciavaglia, our legislative liaison. He'll be keeping track of the questions or comments, and if you have need of further information he'd be glad to provide it for you.

You have in the yellow folder copies of our brief and related research that we will refer to today, specifically in the areas of adult education and the whole issue of privatization and contracting out. You'll be pleased to know that I don't intend to read my entire brief. In fact I'll just try to make some comments around the brief and refer to some of the recommendations at the appropriate times. I'll leave it with you to read in detail.

We have, I must say at the outset, some difficulty in making specific recommendations with respect to the budget and the education sector when we don't have a funding model to deal with and to refer to as part of these pre-budget consultations. I do not envy our school boards, which are trying to plan now for September, trying to do that and trying to amalgamate and having this one

important piece of the puzzle missing. There are lots of questions that we would have liked to be able to deal with, and there are certainly questions that we have. For example, will residential and farm assessment and commercial and industrial assessment that's targeted for education stay in our communities, where it's raised? Michael Gourley, the Deputy Minister of Finance, seemed to say yes yesterday, so it raises the question, will Toronto then, since it has to pay more in business and industrial tax, be able to keep it and apply it to education in the future?

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Question two — I think you'll understand why that first question is important — will be because Minister Johnson has intimated that there will be a uniform per pupil grant for every student in every community across this province. We don't know if that is indeed true. If it is, how will that then affect the fact that there is going to be tax raised at the local level and that it might not be the same in every community? Will some communities then have more or less money to deal with? For that matter, if every student is going to get a uniform per pupil grant, does that include junior kindergarten and adult education students? Finally, if provincial grants will vary depending on local wealth, how is this different from the current model except that the government is going to take total control and therefore cap education expenditures?

Without knowing the model, we have a very difficult time trying to understand the checks and balances that go into education funding to ensure that the needs of students are met. The best thing we can do is talk about total education expenditure and perhaps make some recommendations there about the amount of money that should be allocated towards elementary and secondary education in this province.

Just as some background facts, you will know that approximately $1 billion has been cut from the general legislative grants since March 31, 1995. You'll know from Standard and Poor's evaluation that Ontario spends less per capita on public education than any other province in Canada, and that only 16% of overall government expenditure is directed towards education in this province. That's 5% below the national average, something this government speaks of all the time in comparisons. It's 14% below the national leader, and believe it or not, it's not one of those socialist provinces like British Columbia or Saskatchewan; it's Alberta. Alberta is the leader. They spend 29% of their overall government expenditure on education, and there the parents are walking the streets and demanding that more money be spent on education because of the cutbacks they've faced over the last couple of years of the Klein government.

It's also the province that this government likes to talk about when it refers to standardized tests. While you may misuse some of those standardized test results, you still try to say Alberta is doing a great job. Maybe it has something to do with the fact that they're putting more money into education. We rank 49th of 63 jurisdictions in per pupil expenditure across North America, and it's going down.

Our enrolments are increasing, expenditures have been decreasing, and therefore, as our brief points out, per pupil expenditure in this province is declining. That expenditure is especially directed towards the classroom, so I think it makes a mockery of the promise of the Common Sense Revolution.

The finance minister suggested yesterday that the economy is booming. I guess we have to ask the question, for whom? It's certainly not for the students of this province. There's also some irony in some of the statements. The government criticizes school boards supposedly for raising taxes to make up for the cuts and then tries to argue, as they did yesterday, that they are spending more on education than ever before in the past, while including those school board contributions or local contributions to education to say that they're spending more on education. You can't have it both ways.

The fact is that spending is significantly less. It's significantly less as a percentage of our gross domestic product than it has been in previous years, and if you take a look at page 4 of our brief, you can see that it has gone down dramatically in 1995 and 1996. I would refer you to the last paragraph on that page, where it says: "Government cuts will result in reduced educational opportunities for its students. It appears that the government of Ontario has reduced educational funding to about 3.8% of the GDP. The leading developed countries spend greater than 4% of the GDP. If the NCES is correct, our economy will pay a high price in lost productivity due to the government's underfunding of education." I think that is a significant point, and that is why we're suggesting that as a target for this budget, you set between 4% and 5% of the gross domestic product towards elementary and secondary education.

I'd like to refer specifically to one group, the adult education program in our schools. With junior kindergarten, they were the first casualties of the cutbacks to public education.

In a recent study of the impact of those cuts across this province, we found that a 70% cut to adult education funding has meant a 70% reduction in student enrolment in adult education programs. That means we're slamming the door on a second chance for many citizens of this province. Our adult education program was one of the programs that have been referred to as contributing to Ontario having the highest graduation rate in the country.

The Ontario Council of Adult Educators did a survey of what happens to adult students after they graduate: 83% went on to a job or further education and therefore did not remain on the welfare rolls. What it shows is that when day school programs are replaced by a more limited program under continuing education or eliminated altogether or subjected to user fees, such a privatized approach to our public education system acts as a barrier to success and to opportunity. In fact, what we are inflicting as a result of the changes to adult education is a debt load on some of our poorest students.

The government has said repeatedly that it doesn't want to pass on a debt to a younger generation. I'd say to you

that through user fees and through increases in tuition fees for programs like adult education and at our post-secondary level, what we are really doing is directly passing on the debt to the most vulnerable in our society, our young people, and in particular lower- and middle-income families. It's not that it's a concern about the debt; there is a tax shift from the rich to the middle-income and lower-income families.

I think what we see with this example is that privatization is a false choice with respect to education, and I dare say any public service, that the privatization of programs like adult education does not lead to any sort of improved educational opportunity, that privatization through the grant structure and vouchers leads to a two-tiered system of education, and it just doesn't work. Charter schools and other forms of private delivery of education have been a dismal failure in both New Zealand and Great Britain, where there has been some experimentation with them.

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As an aside, there was an announcement by the Minister of Community and Social Services the other day about the privatization of seven more correctional institutes. In a number of those centres, there are education programs. In one of them, the Syl Apps Centre, there are 24 teachers who are working there. Is it the intention of this government to privatize the education of inmates in those correctional institutions? That is something we do not have an answer to, nor did the representatives of the government when they met with the employees of those institutions the other day.

You will see in recommendations 3 and 4 that as a result of that type of research, we are suggesting that adult students should be funded at the same level as all other secondary students in the province and that the funding model should include funding for junior kindergarten and for any additional costs associated with the provision of secondary education.

I want to talk a little bit more about privatization and contracting out, because the Education Improvement Commission has been asked to review what areas of our education system might be privatized or contracted out. We are hearing rumours of wholesale cuts to the transportation of students, custodial maintenance and clerical services, as if student transportation and clean, safe and welcoming schools are not part of the classroom.

We've included with our brief a study done of the Edmonton public school experiment with privatization and contracting out of support services. Their conclusions, if I may summarize, point out that they were not successful at providing quality services in a school setting; that profit came first; that low wages and minimum benefits, which were the result of privatization and contracting out, led to high turnover rates and therefore no reliable, safe and secure or stable services in the school setting where students would be found; that there was a lack of commitment and identification to the school, which would affect the quality of the school environment; and that the in-house performance exceeded the contracted-out services by some 18%.

The truth is that the whole school is a classroom and that providing public education is very different from the bottom line and the business function of providing goods and services at a profit. In our series of recommendations, numbers 5 and 7 suggest that not only should you forget about looking at privatized models like charter schools and vouchers, which the Premier and the Minister of Education continue to muse about, but that district school boards should directly employ all workers who provide a range of services in schools, and funding should be provided to support the concept of a full-service school, which has been a model we have promoted for a number of years.

What does Ontario get for its money? It is very difficult to answer that question in the amount of time we have today. I would ask you just to look at pages 9 and 10 of our brief, which deal with that question in one way, and that has to do with literacy. Literacy is the building block of all future knowledge.

If I could read pages 9 and 10:

"Young adults in Ontario possess a high level of literacy, as evidenced by The International Adult Literacy Study.... This is an important study of the literacy skills of adults in Canada, the United States and five other developed countries. It identifies three kinds of literacy" — prose, document and numerical literacy. "The study makes a quantitative evaluation of the levels of each of the three types of literacy among various cohorts within each of the subject countries. In the study, literacy skill levels are rated on a scale from one, the lowest, to five, the highest.

"In evaluating the effectiveness of Ontario's schools, two findings...are noteworthy. First, as is the case in most of the jurisdictions studied, a greater proportion of young Ontario adults demonstrate higher levels of all three kinds of literacy than is the case with their older compatriots. The study attributes this in large part to the higher levels of educational attainment in younger adults — a condition that exists in Ontario," for now. "Second, a greater proportion of Ontario adults score at the higher levels of literacy than those in most of the jurisdictions studied.

"One can conclude that Ontario's education system does an outstanding job of providing the necessary literacy tools for its citizens and that more recent graduates are better prepared than older adults.

"A new funding model must assure adequate resources so that Ontario's schools can continue to do the job well.

"It is also useful to point out that Sweden, the one country that had a significantly higher proportion of citizens operating at a higher level of literacy than the other countries in the study, is a nation with a set of policies which encourages lifelong learning," and contributes a far greater amount of money as a percentage of gross domestic product than Ontario does towards its education system.

I want to thank you for the opportunity to present, and I would be pleased to try to answer your questions.

The Chair: Thank you, sir. We start with the NDP. We have about 12 minutes, so four minutes per side.

Mr Tony Martin (Sault Ste Marie): It's interesting to note that this government is trying to convince us all that we have a system that's in crisis and they're going to take $1 billion out of it to fix it.

I know from having spoken to some of your colleagues around the province, particularly in my own community, that with all that has gone on over the last couple of years re the very real attack on education and on people who work in education, there's a tremendous amount of anxiety and stress in the system. I was wondering if you've done any analysis of what impact that stress and anxiety are having on the system itself, the kids in the system, and its ability to continue to produce the kind of product we've come to expect it to produce as we all try to meet the challenges that face us in the working world and in our lives as educated individuals.

Mr Manners: I can tell you just anecdotally about the kinds of statements we're hearing from our membership across the province. There is a great deal of anxiety about their jobs and about their ability to provide the kind of education that they want to to meet individual student needs. They feel they've been, for the last two years, singled out by this government as a scapegoat for funding cuts and that they've been constantly criticized. As we know from any study of learning, if you attack someone, they don't usually learn or do as good a job as they might.

Certainly what we're seeing at the school level is that it's becoming more and more difficult to provide the full range of services that we did — the classes have been cancelled, the textbooks are not available — and that opportunities for extracurricular and cocurricular activities to supplement students' education have been restricted or subject to more and more user fees. That certainly puts pressure on families and children, especially from lower- and middle-income families, and we are in the midst of creating a two-tier education system as a result. Fund-raising has become the order of the day for parent advisory councils when they have a much more important role, from our point of view.

These are just examples of the stresses and strains that are having an impact on the system. We are doing an analysis of the impact of Bill 160 on our school system, and we will do that over the course of the next two years. I know that many parent advisory councils are doing audits of their own schools. The bottom line is that we're also seeing a lot of students from families already under stress from cuts to other parts of our social safety net, and they're coming to school hungry. When you're hungry, you don't learn. Teachers are seeing that as well and an increase in the problems that are as a result of that.

Mr John O'Toole (Durham East): Thank you, Mr Manners, for your presentation. I'm in receipt of a very large report, which I don't have with me, but it's larger than this, extremely well bound, which was sort of titled why Ontario is 49th out of 63. I also did some research on that. That report was done by OSSTF.

Mr Manners: Informetrica, to be exact.

Mr O'Toole: Yes, Informetrica did it under your direction. You paid for it. I have every reason to dispute it. We're entitled to our own views.

Mr Manners: Regardless of the facts.

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Mr O'Toole: Regardless of the facts. You must recognize that there have been findings that the report did not translate the American equivalency dollars, it didn't account for the money in the pension funding, it didn't account for — a number of dollars were missing in that. If you'd like that report, write me a letter and I will send it to you.

Mr Manners: I don't need to write a letter. I'll ask for it directly right now. I am prepared to put your paper and ours to an independent —

Mr O'Toole: I have another point, Mr Chair, if I might.

The Chair: He is going to ask a question, I promise you.

Mr Manners: I thought he had.

Mr O'Toole: The total spending on education that you — we're actually spending more on education than was spent by the previous government, in fact the previous year. You know that. I'm going to ask you the question, where is the money being spent? If you can dispute that we are not spending in total, in elementary and secondary, more money dollar for dollar, year over year — we are spending more. The reason we're spending more is because of the payments to the teachers' pension fund.

My last question to you — you probably have time to answer this. I hope the Chair will allow time. There are 126,000 teachers in Ontario. I might say I admire them almost to the letter. I think teachers are doing a marvellous, yeoman's job in this province. Their average union dues that they pay annually are around $1,000; 126,000 teachers are paid by public people, public dollars, tax dollars; 126,000 of them put in $1,000 in union dues. What are you doing with taxpayers' money? How much are you spending on your airplane? A hundred and twenty-six million dollars of taxpayers' money being spent on your lavish office and your private jet. Where's the $126 million? Where else do you get your money? That money's paid for by taxpayers. I think that $126 million should be spent on students in the classroom.

The Chair: Just a minute. Are you asking him a question?

Mr O'Toole: There are several. He can pick one of them. I appreciate the fact you're here today. I just can't understand how you can present the information as if it's factual. If I go back to the original assumption I made, most of the material the OSSTF presents is absolutely spurious, in my view, and in fact it's paid for by taxpayers' money. Ultimately, all the money you have, all of it, is tax money, all of it, period, every nickel of it. It should be more accountable.

The Chair: Excuse me.

Mr O'Toole: I'll leave the questions. There's enough there to answer, I'm sure.

The Chair: You have asked at least one question. I hope Mr Manners can understand. I commend him if he can.

Mr Manners: If the honourable member is suggesting that all people in the public sector should be volunteers, then I have to question the individual's sincerity.

With respect to suggesting that our research is spurious, I will challenge here today Mr O'Toole to put forward his research and we will send it to any independent researcher to evaluate our research and his, because I have absolutely no concern whatsoever that our research will be validated. That's why we sent it to Informetrica. I'm sure Informetrica would be pleased to know that you are suggesting that they would compromise their integrity just to pay for it.

With respect to taxes, sir, I have just received information today that the Tory government is conducting focus groups and polling of teachers in this province regarding our pension plan. I'm wondering if that's taxpayers' money or Tory money. Perhaps the opposition would like to know and get copies of the kind of negative polling that you tend to conduct each time you're trying to look for a grab of money from some other sector to pay for your ill-conceived tax cut.

The Chair: We'll move to the Liberal Party.

Mr Kwinter: I've gotten a real education here in the last few minutes. I hope, Mr O'Toole, you know that every time you buy anything in your household you're spending taxpayers' money.

I don't want to get involved in that particular argument, but I do want to pick up on the pension, so there's some clarification. Mr Manners, you're saying that the Premier and the Minister of Education have been musing about charter schools and a voucher system. There are also musings coming out of the government that maybe they shouldn't be paying their contribution to the teachers' pension fund. Could you tell me what the implications of that are and what your position is on that?

Mr Manners: We have a business relationship with the government of Ontario, whatever political party is in power, regarding a pension plan. It is a business relationship. This government talks about running government like a business. That business relationship is clearly defined in legislation. We tend to honour our side of that business relationship. If the government does not wish to honour that business relationship, I would suggest that they are compromising a number of other partnerships that exist in this province. They seem to be interested in paying some creditors, I guess, like the banks, but not interested in dealing with others.

Mr Bud Wildman (Algoma): Did you say creditors or predators?

Mr Manners: Take your pick.

Mr Kwinter: I have to declare a conflict of interest. I should have done that at the beginning, but I was so taken up with Mr O'Toole's presentation that I got side-tracked. My wife is a teacher and a member of the OSSTF. I just want to make sure that you know where I'm coming from.

One of the things I've been reading lately is that there are musings and speculation that in order to remove some of the people at the senior end of the salary scale there's a package being negotiated. Is anything happening with that?

Mr Manners: Nothing has happened. As you know, we've heard musings in the press that the government is interested in negotiating what they are calling an 85 factor window. We agree. We're prepared to negotiate an 85 factor with the government, but we want to make sure that if it's a good thing now it's a good thing always and that it should be a permanent benefit for all employees.

The way we are suggesting that be accomplished would be at no cost to the taxpayer. We have, as I said before, a business relationship with the government, and we are suggesting that if they want to talk about these kinds of pension benefit improvements, there is a procedure to follow to make sure that they are put in place. We are prepared to sit down with the government, as soon as they sign a document to move up the triennial negotiations from 1999 to 1998, under those terms and conditions of that business relationship. That could start tomorrow, because we've already signed the amendments that are necessary to move up those triennial negotiations from 1999 to 1998, and we're waiting for the government to respond. The fact that they have not, or have delayed in responding, is an indication that they do not want to operate by that business partnership and that they may have ulterior motives.

The Chair: Thank you very much, Mr Manners. We're out of time. I appreciate your presentation. Mr Ciavaglia, thank you.

BOARD OF TRADE OF METROPOLITAN TORONTO

The Chair: Our next presenter is the Metro Board of Trade, Louise Verity. Welcome back. Please introduce your partner.

Ms Louise Verity: Thank you, Chair. Good afternoon. I am Louise Verity, director of policy with the Toronto board of trade. With me is John Bech-Hansen, economist with the board. We appreciate the opportunity to participate in pre-budget hearings.

At the outset, the board of trade wishes to acknowledge that the provincial government has accomplished many positive things at the halfway point in its mandate. First of all, it has more than halved the provincial deficit, from \$11.2 billion to \$5.2 billion for 1997-98, on track to a balanced budget in the year 2001. Second, it has reduced the burden of personal income taxes by 22.4%, on schedule to a total reduction of 30%. It has presided over strong economic growth, job creation, housing starts and improved business and consumer confidence. It has moved to reduce unnecessary red tape for business. It is bringing in a modernized property assessment system. It is reducing the number of levels of government in Toronto from two to one by creating one new, strong city of Toronto. It has amalgamated school boards and taken steps to ensure that

a greater share of resources is directed to classroom education.

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While it made a misstep last year in its original provincial-municipal disentanglement plan, it responded to the concerns of this organization and others by changing the Who Does What package in several stages to reduce its impact on Toronto and other communities. A particularly progressive measure was a decision to share social housing and welfare costs across the Toronto region. As the government noted when it made this announcement, this will help the GTA "continue to avoid the problems which have plagued large urban areas in the United States — polarization into 'have' and 'have-not' areas, and the hollowing out of the downtown core." These initiatives show the government does listen and is prepared to make changes to proposals when they clearly could be improved.

This is why Toronto's business community was so disappointed by last week's decision to avoid addressing the commercial and industrial education tax inequity. The government has repeatedly stated on any number of matters that the status quo is unacceptable. This has been the case in deficit reduction, education, health care and welfare, to name but a few. Naturally, we are disappointed that the one area where the government has settled for the status quo is one which could seriously limit their ability to deliver on their jobs agenda.

I will now turn it over to John, who will take us through the commercial and industrial education tax issues in further detail.

Mr John Bech-Hansen: Thank you very much. I think it's worth starting by going back to one of the last times we were in this room, which was in October 1997. That was the time we were here to talk about Bill 160, the Education Quality Improvement Act. As everyone knows, one of the important changes that bill made was stripping the powers of school boards to levy local property taxes. So of course, what you have now is a provincial property tax for education. This is going to be raising over $6 billion from business and residential taxpayers. That really is de facto a province-wide general revenue tax, which is why we feel it's very much a part of the 1998 budget discussions.

I just wanted to revisit some of the things we said, back when the hearings were on, on Bill 160. One of the things we did support very strongly was the taking away of the taxing powers of school boards and transferring them to the province.

First of all, there was a good cause for that, because school boards have always been insulated somewhat from the competition for funding that other equally vital provincial services had been facing for many years, such as health care and colleges and universities.

As the province clearly demonstrated, school boards have always taken very aggressive advantage of their privileged access to taxing powers. They raised taxes between 1985 and 1995 something to the effect of 120%. No other provincial tax has increased by that much over the same period.

Finally, we did support the assumption of education taxing powers by the province because the province has broader concerns about competitiveness and the ability to attract business investment. School boards face no real competing priorities when they're levying taxes, and that's why they have tended to raise these taxes so much.

However, all of our support for what the provincial government did in terms of taking over the taxing powers of school boards was conditional upon one thing happening. That was that the provincial government impose a single, uniform, province-wide property tax on both residential and non-residential property for the support of public education.

With the announcement that came on February 5, we were greatly disappointed, as Louise had said, because they decided to have non-uniform rates on business taxpayers. Our view of it is that under Bill 160, education is becoming very much a provincial function — just as much a provincial responsibility as health care, post-secondary education or social services — yet you do not have any provincial tax levy on income, sales, payroll or any other basis which varies on a geographic basis. So why should a property tax? You are now going to be bringing in a new property tax on business which at the outset will be up to eight times higher in some jurisdictions than others. That's what the numbers show.

Under Bill 160, the province brought in a uniform residential tax in the name of fairness and equity. Why is this argument not being invoked for the business taxpayer?

All businesses derive equal benefit from the education system. You can't say that a business in Sudbury, Mississauga or Peterborough benefits any more or less from the public education system than a Toronto business does.

Another consideration is the province's own Business Education Tax Review Panel. That was kept confidential until just last week, and now we know that it did strongly recommend uniform tax rates for business.

The experience of other provinces is also worth noting. Seven other provinces have a provincial property tax for education. All seven of them levy these taxes at uniform rates.

Finally, there is a question here about accountability to taxpayers. This government is very big on accountability, and yet there is none of this when all they're doing really is hiding behind the school board tax rates that were left when these school boards lost their taxing powers. The government is in a sense evading the fiscal discipline and accountability that would come if they were going to set one, visible, uniform rate on business across the province.

We appreciate the Minister of Finance recognized that Toronto has a business tax problem. We are also pleased that he recognizes that a uniform business tax is a goal the province should work towards. In the end, though, a uniform tax rate was rejected because of the tax increases this would cause outside Toronto.

One thing I think we have to bear in mind about that, though: The only reason the taxes go up so much outside

of Toronto is that the province decided some time ago that it did not want to let the yield of these taxes province-wide fall below the current level of $3.6 billion. That $3.6 billion is very much determined by how much the Toronto business taxpayer pays, which is about $1.3 billion of the provincial total. So, in a way, it's a little unfair for the Minister of Finance to have criticized the high level of spending by the Toronto school boards while at the same time implicitly accepting that high level of spending in determining what the yield of that province-wide tax should be, because that $3.6 billion reflects the high spending of Toronto's boards.

Really we're left with no other conclusion than that what the province has sought to do is to appropriate the massive overtaxation of Toronto's businesses for its own fiscal purposes. By doing so, it could leave Toronto to finance its own education system, with little or no provincial grant support. That will free up hundreds of millions of dollars of grant moneys for distribution elsewhere in the province, where businesses will be paying property tax rates up to 90% lower — the paper says 80%, but I've checked the numbers — than in Toronto.

I'll just turn to Louise for closing remarks.

Ms Verity: As John has so articulately outlined, this highly discriminatory treatment is unacceptable to the Toronto business community. The government must go back to the table and examine what reform options are available to begin providing at least a small measure of tax relief.

In the very near future the province will also be releasing their education funding model. The Toronto board of trade has asked that the funding model address the actual needs of Toronto students. Toronto's students have unique needs arising from social and economic circumstances. The inequity of unequal taxation must not be compounded — and we can't emphasize this enough — with an education funding model which fails to recognize the unique needs of Toronto's students. Thank you very much.

The Chair: We have about 18 minutes, six minutes per caucus. We'll start with the government caucus.

Mr Baird: Thank you very much for your presentation. There are maybe two issues I could discuss. You spoke at the outset of your brief with respect to the climate for job creation. Do you think that as a result of the provincial government's policies and initiatives over the last two and a half years Metropolitan Toronto is better off economically, that there are more people working and that the policies have helped contribute to economic growth?

Ms Verity: I would have to say of course — I'll take a stab and then turn it over to John — that a lot of things the government has done have certainly been helpful to the business climate generally. The government has also had the help of a very strong economy, which has been very helpful.

One issue the board is extremely concerned with, and has been for a number of years, probably since the early 1990s, is the fact that we are losing businesses within the boundaries of what is now Toronto to what is commonly referred to as the 905 area because the tax climate is very different. Our concern is that with advances in technology and any other number of advances that are being made in society there could be less and less incentive for people to locate in Toronto.

What we want to make sure of is that Toronto can continue to be strong, can continue to be a draw for business and can continue to be really the engine for not only Ontario's but also Canada's economy. That is actually a point that the minister himself has recognized on numerous occasions, and we want to make sure we're doing everything we can as an organization to see that we continue this trend.

1540

Mr Bech-Hansen: I just want to add that while the economy in Toronto is doing quite well now and you do have a higher level of occupancy in downtown office buildings, for example, there is a whole new structure that is put into place under which municipalities and school boards are going to operate. The municipality of Toronto is very vulnerable, under this new structure, to the impact of any future recession. The moment we go into an economic downturn again in this province, the fact that Toronto now has to sustain 100% of the local costs of social housing and a larger share of income support programs is going to have an incredibly dramatic impact on property tax rates if and when that recession comes about.

Another consideration as well is the fact that, quite apart from all the Who Does What reforms, all capital grants are being phased out for the new city of Toronto and other municipalities. Capital spending is of course an essential component of building a city's infrastructure for the future, and traditionally in any jurisdiction in North America, senior levels of government have always played an important role in capital financing, and that's disappearing.

Mr Baird: With respect to the business education tax, you would agree that a solution that has been discussed and that has got a lot of public attention this week would not raise taxes by a dollar from where they are now for the business community in the city of Toronto. Is that a correct characterization?

Mr Bech-Hansen: The presumption of a uniform tax rate always presumes that it's just revenue-neutral, raising the same amount of money as the current rates do.

Mr Baird: But the proposal that's being discussed would not see an extra dollar added. Taxation levels would stay at the exact same rate for businesses within the city of Toronto today.

Mr Bech-Hansen: That's my understanding as to what the announcement has to say.

Mr Baird: There's no tax increase in Toronto.

Mr Bech-Hansen: On the education side, no. On the municipal side, yes, because there is still a net offloading of about $164 million on to the new city.

Mr Baird: But the mayor is saying he can live up to his campaign promise and do that.

Mr Bech-Hansen: He may or may not —

Mr Baird: But on the business education side, there is a 0% tax increase. I think it's important to remember that they have gone up by 87% over 10 years between 1985 and 1995 and this is 0%, so at least it's stopping the going up. I think we'd all like a uniform rate, but — I mean, the solution is either to cut taxes by $500 million, and other parties have said not until the budget is balanced; most of the Liberal members support not cutting taxes until we eliminate poverty as well, which is a position they've taken in the Legislature.

This would be a $500-million tax cut if they were to go to a uniform rate, either a tax cut or we would ask other businesses in other parts of the province to pick up the slack. If you look at charts, that would mean a significant tax increase for communities from Ottawa, to London, to Richmond Hill, to Parry Sound, to Sudbury, Oakville, Burlington.

Ms Verity: What was particularly problematic for the board is that we recognize that it's very difficult to make a decision to move along these lines in one fell swoop. Certainly a 268% tax increase, as could be the case in a particular municipality, would be very difficult. One of the things the Ministry of Finance has not shown us at this point is what that actually means in dollar terms. That is the missing piece of the puzzle.

Mr Baird: It means a big tax increase for outside of Toronto.

Ms Verity: I would have to say our real concern is the inequity. What we want to make sure of as an organization is that business in Toronto is treated in precisely the same way it is in every other area of the province. That's the number one concern.

Mr Baird: Even if that means a big tax increase in other areas of the province?

Ms Verity: What we're talking about, if I could just bring it back, is that we'd like to see some movement and we haven't seen any movement. That's really the root problem.

Mr Bech-Hansen: The way I think you have to look at it is that if I were a Toronto employer sitting here rather than just a representative of the board of trade, I'd be asking you for an explanation of why my taxes should be as much as eight times higher than some of my competitors' elsewhere in the province. Am I getting more benefit from the provincial education system than my competitors are elsewhere in the province?

Mr Baird: But that's the status quo. That's not something new that's been dreamt up. I just think it's important not to leave the impression —

Mr Bech-Hansen: Well, there's the provincial assumption of responsibility for education.

Mr Baird: But the province has always contributed a significant amount to education. I think it's important not to confuse the issue. This is a 0% tax increase. There's not one business in Toronto that's going to get one dollar more in taxation as a result of that decision, and I think that's important.

Ms Verity: The other side of it is, we've talked in reference to other provinces. Seven of the provinces have adopted a uniform rate. In Ontario we're not just competing with the 905 region, we're competing with what was formerly Frank McKenna's province and other jurisdictions outside of Ontario. So we really look at it from not only within the province but also from an international and interjurisdictional perspective.

The Chair: I'm going to have to stop you there and move to Mr Kwinter.

Mr Kwinter: This morning when the CFIB was here I related a comment that I got this morning. I attended a breakfast meeting of the printing industry and one of the executives got up and was telling his story. He was making a pitch to the Liberal caucus about some of their concerns about what was happening. He said his company pays more in realty taxes than they do in rent and suggested that that was a significant amount of money.

Last night I was at another dinner and I heard — and we discussed this, because as anybody would know, it is a hot topic in the business community in Toronto. Everybody is talking about what is happening, particularly because of the mayor and his particular stand. He's gotten a lot of attention on it.

But I spoke to a fellow who was the chief financial officer of a major company that's in the furniture and bedding business and he said: "My lease is coming up next year. I could move literally across the border into Richmond Hill. We have done a study that shows that a business valued at $500,000 in Toronto would pay $21,600 in realty tax. The same business — the same type of business, the same size, everything — in Richmond Hill would be paying $11,100." He took out a piece of paper and calculated and he said, "I can make $250,000 a year by doing nothing but moving two miles north of where I am now."

I'll tell you, this is something that we are going to have to think about. Figure it out: $250,000 a year; in 10 years, $2.5 million for doing nothing. I'm not going to be disadvantaged in any way. I may have some dislocation of staff because they may not want to travel that extra couple of miles, but that is the issue. You've already stated that businesses are leaving Toronto for that very reason, and this is only going to exacerbate that situation. Have you got any experience in that or comments about that?

Mr Bech-Hansen: Well, one thing. There's a table I have here which I've always referred to which is just showing the annual rate of change in commercial and industrial assessment from 1988 to 1994 — I don't have anything more recent —and that does show that the city of Toronto, formerly Metropolitan Toronto, has been losing about 1% of its commercial assessment base per year over that period, accelerating a little bit in the early 1990s, whereas you have increases of 50% or more in the commercial assessment base of some of the 905 area, as much as 80% in the town of Newmarket, for example; an 80% increase over that same period while Toronto has been losing at about 1% a year. I think that's all the evidence you really need.

Mr Kwinter: I understand the government's concern about what happens if you go to a flat rate across the

province. The one thing I would comment is, Mr Baird keeps holding up this chart, and he equates communities but he doesn't equate numbers. If you take a look at all these communities, you say, "Look, there are 50 communities that are going to have their taxes increased." But you say, "How many people are in those 50 communities and how does that compare to the number of people who are in Toronto?"

Mr Young: Mr Kwinter, this is your chart.

Mr Kwinter: No, I'm not condemning the chart. All I'm saying is that you can't just use numbers of communities, you have to take a look at the people in those communities. I can give you towns, every little hamlet and every little village, and say: "My God, do you know what's going to happen? To look after Toronto, we're going to have increases in 5,000 communities." But what you have to understand is, what is the number of people who are going to be impacted by that?

I agree that it can't just be, you know, today it's this and tomorrow it's that, but I think there's got to be some sort of an accommodation so that you have a fixed plan that's going to give some assurance to the business community that there in fact is a solution in sight so that that will deter them from looking at this and saying, "We've got to get out of here because we can't afford to stay here" — not because they can't do the business. Another thing I heard was someone saying they're not going to pay any more money. It's opportunity costs. They're saying, "Here's what we're paying. We're not happy with it but — "

Interjection.

Mr Kwinter: No, but I'm saying: "You know what? We didn't realize it but if we could go another mile ahead" — as this fellow said to me last night, "I can make $250,000 a year for doing nothing, just by being in another spot." That's the issue.

The Chair: Do you have a question, Mr Kwinter?

Mr Kwinter: No, I just wanted to get their reaction to it.

The Chair: Let's have the reaction to Mr Kwinter's point because we're running out of time for the Liberal caucus.

Mr Bech-Hansen: You make a valid point. I'd like to know what number of business establishments you might have in some of these affected communities. You have 77,000 business establishments in the city of Toronto affected by this discriminatory policy and I wonder how that equates with some of the other small communities that might not have very many business establishments.

1550

The other consideration is the range of taxes is effectively from about 0.5% of market value to 4.5% for education tax. Any business that is paying 0.5% is probably paying a matter of a dollar a square foot, if that. Doubling that is nothing compared to the value of decreasing 30% on a downtown business that's paying $8 a square foot. The point I'm making is, if you're starting from a very low base of tax any way, what looks like a large percentage increase is not a large dollar increase.

The Chair: Thank you. I'm going to have to interrupt you there and move to Mr Silipo.

Mr Silipo: I just want to come back to one basic principle that I saw in your presentation, just to be really clear, and then deal in more detail with what you think should be happening in terms of the government's announcement of last week.

What you're saying essentially is you as an organization supported what the government was doing in terms of the government gaining control over the decisions about spending in education and taxing because you understood that what would come out of that was a uniform rate for both residential assessment and for commercial. It's happening on residential but it's not happening on the commercial-industrial base. Fair enough?

Mr Bech-Hansen: Yes.

Mr Silipo: That's the question I wish Mr Baird would answer every time he throws up that chart, because it seems that if there's a certain amount of logic that one applies to one, then the other can't be extrapolated from it and put to the side.

Given the mess that we're in and that the government is in, I hear from what you're saying that you're not saying necessarily, although you'd like a provincial uniform rate, yesterday — that quite frankly if the government was able to begin in some way recognizing that that's the direction it needed to move in, if it brought in some kind of system of phasing that in, that at least would be going in the right direction, as you see it.

Mr Bech-Hansen: That's right. Business planning is always made on a very long-term horizon. I think as long as businesses have a certain confidence level that there's a certain direction in which we're heading and that we'll get there some day, that's really all it takes to enable businesses to plan where they might choose to locate, based on where they know things are going to go.

Mr Silipo: Do you have any further thoughts on that with respect to within the GTA? Would that seem like a logical first step, to say at least let's begin a process of balancing out and again, over a period of time, whatever that time period is, I'm not sure what would be appropriate, to say at least between Toronto and the rest of the GTA there's some logic that says you've got to have, more and more now, eventually uniform rates and that eventually could take it a period of time?

Mr Bech-Hansen: There is some logic for doing this on a GTA-wide basis. First, the largest impacts of all, like where you're getting 100% or more increases, are all places outside the GTA altogether, so it's best to leave them out of the situation. It makes sense to do it on a GTA basis partly because that is the designated pooling area for social services we're going into. Hopefully there will be a Greater Toronto Services Board over that same jurisdiction eventually. There's another consideration too: the nine zones that were set up for taxing rights of way. One of them is the GTA as well, so there's already a designated zone where this would make some sense to apply it. Those are considerations.

Mr Silipo: This may be an unfair question and I really don't mean it this way, and you can choose to answer or not. But from my partisan perspective, what the government has done in this area is that it was comfortable enough in doing the uniform rate when it came to the residential, because the impact of that is largely within Toronto, as I see it.

Mr Young: And Ottawa.

Mr Silipo: And Ottawa, that's correct. But when they looked at the impact of this, if they were going to do it across the province — and again, subject to all the things we've said; I don't think anybody realistically expected them to do it overnight across the province — what the real impact would be and what they were afraid of is the backlash that might come from businesses in the 905 area, particularly where there would be increases. Is that part of your sense about why they're hesitating to do this?

Ms Verity: I guess our concern isn't really to talk about the politics of it but rather to talk about what we think is a decision that would be in the nature of good public policy. The bottom line is that even a phased-in approach, a small step in the direction towards an equitable tax base, is really what the Toronto business community is looking for. If that's the message that we leave today, I'd say that would pretty much sum it up.

Mr Bech-Hansen: I just want to emphasize too that there are options that should be examined and moving in a phased way to a uniform rate is just one thing which affects everybody at once. Another way is to look at what's the lowest rate anybody's paying in Ontario and what's the highest, which is Toronto, and why don't we establish a band of fairness which is sort of getting a little bit closer and closer together all the time. So basically the ones inside the bands of fairness can stay frozen where they are, but the ones who are most out of whack at the top end could come down a bit and the ones who are getting away for practically nothing in education taxes would come up a bit and they would be cross-subsidizing the highest-taxed ones. That is another way of phasing where you're just not hitting as many people. There are all kinds of options that could be examined, and that's what we hope the government will do.

Mr Silipo: Have you had any sense in the aftermath of the announcement that the government is willing to take a look at some of those options?

Ms Verity: At this point we are continuing certainly to talk to the government, to press our case. The city of Toronto is doing so and also in a very vocal way. We are of course communicating with our —

Mr Baird: That's one way of putting it.

Mr Silipo: They'll be doing a little bit more of that tomorrow, Mr Baird, yes.

Ms Verity: We are communicating with our membership. We're hearing from our membership and I think anyone who represents a riding in the city of Toronto, whether it's provincial or municipal, is hearing from Toronto's business community on this issue and will continue to hear from Toronto's business community on this issue.

The Chair: We are out of time. We appreciate it. Thank you very much for your attendance and your submission.

Our next presenter is the Risk Winning Foundation, Mike Heenan.

Interjection.

The Chair: I'm sorry, Mr Heenan is scratched.

PLM GROUP LTD

The Chair: Our next presenter is PLM Web, Barry Pike, president. Mr Pike, come forward, if you would. Welcome, sir. Thank you for coming.

Mr Barry Pike: I've passed around a brief about our company. There's PLM Creative, PLM Imaging, PLM Graphics, PLM Web, PLM Finishers, PLM On Demand, PLM Interactive, North 44 Marketing, Intercolour Graphics, PLM Distribution, PLM America in Cincinnati and PLM America in New Haven, Connecticut.

Our company incorporated in 1987 with six employees and today we have 275 employees in Ontario, plus what we have in America. We came from zero sales to $100 million — that's our estimated sales this year. We are now a publicly listed company on the TSE. We specialize in printing, from concept right through to final product. To date, we have invested over $50 million in Ontario.

One of the things that I've found, working and growing my company, starting with nothing and taking every penny I had to get into this business, is the Canadian and the Ontario governments being very cyclical. I remember back in 1981-82 when we had that last recession. Then we went through an expansionary period to 1989 and we went back into the recession of 1990 up to 1995. Those were the toughest times of my life. One third of my competitors went bankrupt.

In our view, the economy is ready to go forward in 1998. This expansionary cycle will likely continue for the next several years, in our opinion. That expansionary cycle, I feel, is in very strong part because of the Conservative government. This recovery is because of the fiscal restraints and responsibility in our current government and I believe it should continue on the same route in the future. But unfortunately there's a very poor perception of this government's fiscal performance by some people. Some of the examples, and I don't think they're fair, the things that happen out there: 126,000 teachers can go on strike, can hold two million students hostage and then along comes our government and we turn around and give every child a $40 tax rebate. No receipt had to take place.

In my company I told all my employees, "Bring your kids in." We had lots of kids in our place. It was good for them to see what was happening there. It was time to pull together. The teachers got out there and they lived a great life, and now they're telling the kids how bad our government is. Those are our future voters. Those are the people who are being poisoned in the schools by this whole situation. I don't think it's right, but I don't think it was right for the government to arbitrarily give out $40 a person per

child without any backup whatsoever. It was a great gesture.

1600

The balanced budget is an absolute necessity in our future. Our businesses need incentives. We have to continue. We don't need penalties as we go. I believe the Conservative government is going in the right direction. We would like to somehow put in some hiring and training incentives. It would be beneficial for Ontario. It would be a win-win situation for the employer, the employees, our government and all the people in Ontario.

One of the things we have worked with very hard is trying to put together a day care centre. I get fed up hearing everybody saying the government should take care of our day care centres, take care of the whole thing. One of my views is that the government could become involved somehow with employers in a day care centre, somehow split the burden of some of that cost back and forth, go on a day-to-day basis and get the employers to pay a portion, the government to pay a portion and a portion by the employees who are utilizing the facility.

Right now I have some people who pay $60 a day for two children to go to day care. The tax write-off on that is so low. What's happening right now is half of the housewives on the street are taking them to some girl down the road. One of my employees drops his son off with a girl who holds 11 kids every day, and she is not a certified day care centre. Along the road something is going to happen. If we can put them into a proper day care centre that's run by our management — I don't want government to come in and run it for us; we'll run it ourselves — I'd like to see some tax incentives to go in that direction. Nobody is looking for a free holiday in our business. I'm just looking for a better place to send our employees' kids.

You know what? Once women — and it mostly is women — get to two and three children, they stop working. If we can give them some tax relief, not $2,000 a year for day care, if we can get them out there, we'll get a lot more people out on the street working. When they go out and work, they pay taxes. It's a contribution. It's a win-win for everybody.

Reporting: With some of the things I'm talking about today I don't know if I'm overstepping my guidelines, but I find the requirements are onerous, I find them expensive, such as the Ontario Securities Commission, all the things that we have to go through. If we could cut out a bit of the red tape, we could save ourselves an awful lot of work, an awful lot of legal expenses. I don't know how we can fine-tune, but one of my recommendations is to get rid of a little bit of the red tape or a lot of the red tape that's out there. The duplicate reporting to the federal and Ontario governments: If we can cut that down and not do as much reporting to so many different places, it would be another savings.

One of the things I would like to ask of this government is, why haven't we considered or have we considered participating in a harmonized sales tax? It has worked quite well, I believe, on the east coast. You turn around with the harmonized sales tax, and it makes it easier and it cuts down the accounting costs. We're turning our companies into bookkeepers taking care of all these taxes.

One of the other things is pricing. I travel a lot in Europe in my business. Everywhere I go the taxes are all included. Everything is one price. It's just an idea, but you know what? Let's help eliminate that underground economy. That's a $2-billion economy in this province. There's not one person in this room who hasn't had a guy come to the house and say, "I'll do it for cash, or do you want a receipt?" I think everybody should pay taxes. We pay our fair share of taxes. To harmonize taxes is one way around that.

One of the things we have a great deal of problems with in our company is workers' compensation. It's much improved under the Conservative government. It's light-years away from where it was before. I used to think that was a holiday pay section for a lot of workers out there because as soon as it got cold they got hurt. I'd pay over $100,000 a year to workers' compensation. The claims are hard to process but the experience ratings are harsh.

We turn around. When somebody gets sick we do not go to workers' compensation because our rates — it's worse than car insurance. They go up through the roof. I really don't have an avenue to go to even complain about it — over $100,000 a year. I'm paying them. We don't make the claims. I think some sort of mechanism could be put in place for people who aren't making claims so they can at least write down the cost of those employees who are off and take them off your yearly workers' compensation fees.

Tax incentives: These are just ideas I have but I believe in good ideas, and one of the ideas I have is tax incentives for companies that show a 15% growth over and above what they did before. That's growth in sales, growth in profits. We've grown our company substantially as much as 30% and 40% a year. This year we will grow our company by approximately 35% again. We're working very hard to do it. If we could get some incentives, we can put that back into our company. I'm in a very capital cost incentive company business. One press for me is $17.5 million and I need as much help as I can get to keep buying that equipment.

This year alone, PLM will employ an additional 50 people. In the trade we're in, we're a totally non-union business. We treat people the right way. But those 50 people will earn over $2.5 million additional this year. That will put $1 million to $1.2 million into the Ontario government. I'm not asking for too much when I'm asking for some tax incentives to come back to us. Not only will that $1.2 million come back to the province of Ontario, the money they make over and above that will be spent in this province.

One of the other things I get a little quirk on is the Ontario Development Corp. Why aren't more loans being made? My company is a public company because I had to go public to grow the way I wanted to grow. You can't go to a bank. You can't go to the ODC. You can go to them, but probably eight out of 10 loans are turned down.

This isn't a bitch session for me. It's a way to help the little guy that wants to grow.

Why can't the commercial banks and the ODC — and I'm not bank-bashing here — combine to do some financing for companies instead of forcing them to go public? It cost me $500,000 to go public. It went well, but it's a big gamble and a lot of small businesses can't afford to go that route. It took us a lot of years to get there.

It's kind of funny, I find, that governments can find money to send overseas to Asia to prop up everybody else's dollar and economy and we've got a lot of people in our province right now who need help. Our economy is robust. It's going great. If we want to grow it and I want to grow — my company will be a $250-million company by the year 2001. We've never missed a projection. We need help from this government to do it.

Business taxes: I just came in after people were talking about business taxes. The city taxes: The overall assessment process is being changed. Things are happening. I'm going to repeat myself. I'm going to repeat what was said ahead of me. I'd like to see some period of years to phase it in. There's so much business. In the Toronto Star last night they were talking about the brain drain that's happening. People come here, they get educated, and then they move down to America and they move out of here. I left Quebec for that reason. I moved here 20 years ago. I'm an Ontario resident. I want to keep my company in Ontario.

If you see in my list, we have companies in Cincinnati, Ohio, and New Haven, Connecticut, and are about to make another acquisition. What we are doing down there is solidifying work that is done right here in Toronto, Ontario, and we're shipping it back there. The free trade has helped us, granted, but as many tax incentives as I can get doing it that way and growing. I have to spend another $50 million in the next three years to realize my $250 million in sales.

We pay our taxes. I'm not looking for a free ride and nobody I work with looks for a free ride. We want to go out there and we want to be corporate citizens. As tax rates go up, the business goes south.

I just want to say thank you. I'm a Conservative. I back the Conservative Party 300%. We got the message. We went through eight years of hell with the Liberals and the NDP. If the Conservative Party doesn't start doing some public relations, I think you stand a chance — I think you'll make it in again, but let's not give it the opportunity, not even this big, not to be re-elected, because if you miss at the re-election — the economy is getting back together — I'm not sure how long it will take them to mess it up again.

It's the truth. I remember sitting in my office having an argument with a client, whom I no longer do business with, who thought the NDP was a great idea. Under that government and under the past, my business died; one third of my competitors left. I'm not complaining here today; these are just some of the items I have.

I just want to say thank you for letting me come here and talk to you.

The Chair: Thank you very much, Mr Pike. I take it you have time for some questions, if you don't mind. We'll start with the official opposition.

1610

Mr Kwinter: Thank you, Mr Pike. I'm glad you identified your political leanings; I would never have guessed. I appreciate that.

I want to congratulate you. It really is a success story to take your business from six employees in 1987 to a $100-million company that's going to be a $250-million company in the year 2001. I think it's great and I commend you for it. It's a real success story.

I just want to comment on some of the things you said. I know you had to go the IPO route to get your financing and you felt there was a lot of red tape and that the Ontario Securities Commission should cut out a lot of this stuff because you think it costs a lot of money — I think you said $500,000 — for you to go public.

Mr Pike: That's what the general cost is.

Mr Kwinter: The securities commission is really a consumer protection organization. On the one hand we'll have the Mr Pikes of the world saying, "This is ridiculous, it's too expensive, too much red tape, too much paperwork" —

Mr Pike: Can I interrupt just for a second?

The Chair: No, please. You'll get a chance to answer. He is going to ask the question, sir.

Mr Kwinter: Let me just continue. So on the one hand they're saying, "It costs too much, too much red tape, it just makes no sense," and the very next day you'll have a Bre-X and everybody's yelling and screaming: "Why didn't the Ontario Securities Commission do their job? Why didn't they make sure this thing was a legitimate company and the assets were there and they had done their due diligence and done all of these things?" You have to understand that there's got to be a balance and the reason a lot of this stuff is there is because — none of this stuff is for the good guys; it's to make sure the bad guys don't get in there. Unfortunately, the good guys have got to suffer a little bit because of it. I just wanted to make that comment.

The Chair: Do you want to give him a minute to respond to it? I think he wanted to.

Mr Kwinter: Sure.

Mr Pike: I agree with you. My statement was, where can we cut down a lot of the red tape? There is a lot. I spend so much money on lawyers cutting through the red tape. If we can cut it down, let's try and cut it down and make it easier for business. That's what I'm saying. I agree with a lot of the stuff the OSC does. It's there, it's a body, I report to it every single day. I think if some people got together and tried to figure out ways to fine-tune it — but not to disintegrate the quality of it because you know yourself there's that much paperwork to do this much work. There are people out there who specialize in fraud. We don't, a lot of people don't, but if we could cut down some of that cost and that expense, it would be nothing but a win-win.

Mr Kwinter: I agree and I can tell you that I think everybody — we campaigned on it in 1995. We want to

cut out the red tape. This government has set up a whole Red Tape Commission to do it. I think everybody feels that so much regulation is necessary but no more. I think that's a good issue and I agree with you.

It's really interesting, because you've touched on topics that this committee has addressed over the last few years, one on the underground economy. It seems to me that notwithstanding that there are people, single entrepreneurs who go around and offer you a cash deal, basically the main reason that we had it was the discrepancy in the duties, the values and the value of the dollar, and we had people going into the United States on a daily basis. It was a big issue.

As a matter of fact, this committee addressed the underground economy. It's still there, but it certainly has I think bottomed out. You'll always have people out there who will do business on a cash basis and there is no way you can regulate it. What you have to do is make sure that your tax regime is not so onerous that it encourages people to do it.

Mr Baird: Wow.

Mr Kwinter: What are you saying "wow" for?

Mr Baird: I agree with you.

Mr Kwinter: Do you know that Bill Davis said I'm more conservative than anybody he ever had in his cabinet?

The Chair: Mr Davis was wrong about a lot of things. You've only got a minute left.

Mr Baird: But the government will give up some of our time if he wants to continue.

Mr Kwinter: I also want to talk to you just briefly about the Ontario Development Corp. The minister, who is no longer the minister, Mr Saunderson, made a public statement that government never created a single job and that they shouldn't be in the business of funding anybody for anything, and that if the private sector can't make it on their own, they shouldn't be there.

I questioned him on this. As a matter of fact, I wrote a letter to the deputy and I said: "If this is true, you guys have got the biggest boondoggle going. Shut off the lights and send everybody home, because what are you there for?"

I agree that there is a role for government to play and I am happy to hear you, as an avowed Conservative, suggesting that. Can you respond to that?

Mr Pike: You know, it's kind of funny. When I started my business I went to every government agency that was out there. I did it for three years straight and I was told point-blank, "There are too many printers in this country and we're not going to invest any money in printers."

It was just a couple of years later that one of the largest printers in the country got $4.5 million from the government. I don't know what it was; they must have been better at it than I was.

The government that's out there has to be able to work with the little guys. They said, "There are too many printers." There are only two major printers in this country, in case anybody hasn't noticed. There are two guys out there who'd buy all the rest of us. I'm not for sale and I'm not going to be swallowed up by a large conglomerate. We've grown to the fourth- or fifth-largest printer in the country, in spite of all the roadblocks that were put in front of us along the way.

I have never, ever in the history of our government gotten a grant from anybody. If we're making widgets, let's help those guys out too. Let's try to reinvest in our own country and in our own province here, in the guys who are the entrepreneurs.

The Chair: Thank you, sir. I am going to have to stop you there for one moment and turn it over to Mr Silipo.

Mr Silipo: Mr Pike, thank you again also for being very clear about your political leanings and affiliations. I don't purport in our exchange to suggest that I could even remotely change your views on that. But I do want to deal with a couple of facts which are still important to put on the table, and I very much invite your comments. Again, although I disagree strongly with some things you said, I find on a number of points you made that I actually do agree, the point you made, for example, about the need to reduce red tape. It was actually under the NDP government that the first major changes in reducing red tape were made when we streamlined the registration procedures for new businesses. Instead of multiple registrations, it became possible to have one registration system apply to different facets.

Mr Young: It wasn't working. There were no new businesses.

Mr Silipo: The point is that that was seen as the first step, and the second step — and I've said this publicly already in the House on a number of occasions — was dealing with what the current government is doing, which is to look at the reporting requirements and make some changes there. That's just a point to say that it's not as if any one of us has a monopoly on what needs to be done.

I want to ask you one particular question with respect to the comment you made about businesses fleeing. Again I ask you this knowing you're a staunch Conservative supporter. In your assessment, what role did the free trade agreement play in the number of businesses that left Ontario particularly, and therefore the number of jobs we lost? Do you not see that that was at least a major factor, if not a key factor, in what happened in Ontario during the last recession?

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Mr Pike: During the last recession a lot of companies left here just because the business climate was difficult, very difficult in this country.

Mr Silipo: But what happened to change that business climate? There were no —

Mr Pike: What has happened?

Mr Silipo: There were no major changes in terms of the taxing system, other than that major change that businesses that were operating both here and in the United States could, through the free trade agreement, in effect end up getting the same services set up in the United States and then be able to ship their products here.

Mr Pike: The free trade agreement going back and forth. One of the things that has made it easier for busi-

ness — I feel that I've got a government right now that is very business-oriented. They're turning it around. I hear everybody saying that this government is for the rich only. It hasn't done me any good, for the rich only. What it has done is given me some of the money back, some of the taxes, some of the over-taxation. It has straightened out a lot of the problems with the Worker's Compensation Board. It has made it a lot better than it was in the past.

On the business side of it, every time we turn around we're getting a lot better responses from the people we're dealing with under the Conservative government.

Mr Silipo: One of the other areas you dealt with earlier in your presentation was the need for various incentives. I think you were talking about tax incentives and maybe other kinds of incentives around training, around child care. When I was Minister of Community of Social Services there was more than one child care centre that we opened located in businesses. I was curious to see whether what you were suggesting was different than that. In other words, are you saying there should be funding, whether it's through tax incentives or however it should be done, from government to encourage and allow businesses like yours and others that want it to help establish, on a joint basis, child care centres, that that should be done; similarly, with respect to training, that there should be some incentives provided?

Mr Pike: Yes, I do. I get so many people saying the government should just subsidize totally a day care centre and the whole works. If businesses were given the opportunity to establish a day care centre, with participation from the government and support in the form of a tax incentive, I think it's our duty to our employees to take care of their children. Let them get a good education, get a good start in life, take them out of the housewives' homes and get the wives back to work.

What I would say, and this is just a suggestion, is that if there could be some sort of scenario where the tax relief could be there, not only for the person who makes $25,000 a year — why should the person who works 12 hours a day be penalized and not get a tax incentive? Why can't his wife come to work? If we can get those wives, or spouses, which is probably a better way of putting it, back to work, they're going to pay taxes, they're going to contribute to society a lot more. A lot of wives sit back and lose 10 to 12 years of their life because they can't afford to send their kids to day care. If they got out and got the opportunity, I think their whole life would — unless they choose to spend their time with their kids.

Mr Silipo: Mr Pike, you don't have to convince me of the merits of that happening. The reason I asked you is because I wanted to be clear that that's what you were advocating. We may disagree about the best method, whether it should be done exclusively through tax incentives or through a combination of other ways, but the point is that I agree with you that that's a role that government should play, both with respect to training and with respect to services like child care. The reality is that the government you're supporting is the body that's saying that they don't believe that's what should be done.

Mr Pike: The government —

The Chair: Excuse me, Mr Pike, I have to interrupt here and move to the government caucus.

Mr Baird: I have more of a comment than anything for you, sir, just to thank you for coming out today. You've certainly given us a lot to think about. Mr Kwinter said earlier in his discussion with the previous witness that government doesn't create jobs, people create jobs. I certainly agree with that, but I think government can help create a climate that's conducive to job creation. That certainly is an important role.

But the people who create jobs are people like yourself, people who are prepared to work 18 or 20 hours a day when they're starting their business, see the thing through in the tough times, to create the jobs for people to earn a good salary and to raise their families. They're the risk-takers. I salute you; you're one of the real heroes in our economy who make that happen. I just want to thank you for your time today. We'll certainly reflect on what you've had to say.

Mr Pike: John, thank you, but you know what? It's not a bunch of you-know-what. I didn't come here with picket signs or to insult anybody. I just came here to give my views. I now work 12 hours a day. I'm not going to die; I'm not going to burn myself out. Do you know why? Because I love doing what I do. I've made 17 or 18 millionaires in the last 10 years. They're all in this province. That's what we've got to keep going.

The Chair: Any other questions from the government members? Thank you very much for your attendance. Best of luck, sir.

Mr Pike: Thank you very much.

The Chair: Committee, the first item tomorrow morning, at 9:30, is cancelled. We will not commence until 10 am with the Ontario Public School Teachers' Federation. We are adjourned until 10 am tomorrow.

The committee adjourned at 1626.

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CA2ON
XC25
-F31

ISSN 1180-4386

Legislative Assembly of Ontario

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Assemblée législative de l'Ontario

Première intersession, 36e législature

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Journal des débats (Hansard)

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Published by the Legislative Assembly of Ontario

Service du Journal des débats
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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 12 February 1998

Jeudi 12 février 1998

The committee met at 1001 in room 151.

PRE-BUDGET CONSULTATIONS

ONTARIO PUBLIC SCHOOL TEACHERS' FEDERATION

The Chair (Mr Garry Guzzo): Good morning and welcome. Our first presenter this morning is the Ontario Public School Teachers' Federation. Ms Benedict, please come forward. Welcome. If you wouldn't mind introducing your associates and commencing, we have 30 minutes to use as you wish.

Ms Phyllis Benedict: I would like to introduce to you this morning the first vice-president of the Ontario Public School Teachers' Federation, Stan Korolnek; the general secretary, David Lennox; and our government observer, Vivian McCaffrey.

OPSTF is pleased to have this opportunity to appear before the committee to provide an update of issues of concern to our members that directly affect the quality of public education.

I would like to begin by setting the record straight. While it is indeed true that there is a high level of anxiety among teachers with respect to the government's restructuring and cost-cutting agenda, it is not true that teachers are against change and against educational reforms. While we have some concerns about the implementation of standardized testing, the centralized curriculum and the standardized report cards, we are working at the school level to make these reforms work.

The protest this fall was not about these reforms. It was about the arbitrary removal of school boards' and teachers' right to have a say regarding key working and learning conditions in our schools, and it was about the undermining of the authority and the democratic function of the local school boards.

While we understand the government is more responsive to constructive input during the pre-budget consultations, OPSTF finds it very difficult to proffer recommendations that are not calling upon the government to either reverse key policy decisions or at least slow the pace of them.

The federation's principal concern is the government's cuts to the public services which support children and families. Our attempts are to make the case that cutting education and other social programs in order to fund a cut in provincial income tax rates is resulting in an unravelling of our social fabric and turning Ontario increasingly into a province of haves and have-nots. Our concern that the province is going too far and too fast is shared by the majority of Ontarians, according to public opinion polls conducted as recently as December 1997.

The education sector is in a state of high flux and anxiety. Amalgamations present a significant challenge to school boards and to their employees. The challenge is heightened by the failure of this government to provide details for the new funding formula which will determine the level of programs and staffing effective in September 1998. Further, without the new funding formula, school boards cannot begin to negotiate with their employees, a process which by now should be well under way.

A major component of this government's restructuring of the education sector is to give total control over the level of education spending to the province. While OPSTF agrees that there needs to be reform in education funding to achieve greater equity among the assessment-rich and the assessment-poor school boards, the federation does not support the government's move to totally remove school boards' ability to set tax rates to support elementary and secondary schools. The loss of this taxing power seriously reduces school boards' authority and their ability to make decisions regarding the level of school programs and services.

Recent public opinion polls indicate there is strong support for boards to continue to have taxing power. An Environics poll conducted in December 1997 indicates, "Seven in 10 Ontarians say it is important that their school board be able to raise revenues at the local level." The federation is strongly opposed to cabinet setting property tax rates. With one stroke of a pen the setting of tax rates for education amounting to more than $6 billion has gone from the venue of an open and accountable school board to the secrecy of the closed door cabinet rooms. This amounts to taxation without representation and is totally unacceptable in a democratic society.

The federation recommends that the property taxes be debated and voted on in the Legislature. Loss of any local authority to respond to community needs and wishes will make it virtually impossible for school boards to continue to offer such valuable programs as junior kindergarten and adult education. While the Common Sense Revolution promised to make junior kindergarten an option, local

school boards will not likely continue to have this option under the new funding formula. Investment in early childhood education, including junior kindergarten, is supported by research and promoted by the Royal Commission on Learning.

The loss of any control over revenue also places into question the ability of school boards to negotiate in good faith with their employees. If school boards are continually forced to plead inability to pay at the negotiations table, then local collective bargaining becomes impossible. The federation believes the school board should have the authority to raise at least 5% of its budget from discretionary local levy. This recommendation is supported by the Association of Municipalities of Ontario and by the Who Does What panel chaired by David Crombie.

When evaluating current funding levels for education, this committee should keep in mind the extent of fiscal restraint already imposed upon the education sector. As we have outlined previously, we have lived under several years of cost cutting, including the four years prior to the Harris government being elected. Less than inflation rate transfers to school boards in 1992 and the three years of the social contract and the NDP expenditure control program imposed deep cuts to the number of teachers and to programs, as outlined on page 7 of our brief.

Since our presentation to this committee a year ago, OPSTF has conducted two studies to document the impact of cuts to education spending. The first was a survey of classroom teachers, who indicated that schools are finding it increasingly difficult to manage their budgets. Many teachers reported insufficient funds to purchase classroom supplies and equipment. The survey also indicated that public elementary teachers spend annually, on average, $315 of their own funds on school supplies. This translates into a province-wide subsidy of approximately $15.6 million for public elementary schools alone. If the government continues to attack teacher compensation and working conditions and to undermine teacher morale, then teachers will no longer be able or willing to make this kind of voluntary contribution to their classrooms.

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The second survey focused on school fund-raising. Compared to 10 years ago, when OPSTF conducted a similar survey, public elementary schools are not only having to raise larger amounts to support programs and activities, they are also shifting more of their fund-raising proceeds to computer hardware, library resources, textbooks and classroom supplies.

In 1985-86 the average amount public elementary schools raised from fund-raising was $3,550. Ten years later the average amount had increased to $8,540. The latter survey showed that the total amounts raised per school ranged from $500 by a school in the Carleton board with 515 students to $72,175 by a school in Essex county with 592 students. The vast majority of schools surveyed, 71%, raised between $1,000 and $10,000.

Based on the OPSTF survey data, it is estimated that across Ontario public elementary school fund-raising supplemented school budgets by $22.6 million in 1995-96.

The OPSTF fund-raising survey not only points to the fact that public elementary schools are already having to respond to funding shortfalls, it raises issues related to the varying abilities of different schools to raise funds.

Schools in more affluent communities tend to be able to raise larger amounts than those in less advantageous communities. This is already widening the gap among schools with respect to the level of computer technology and software available in schools, and to the quality and quantity of library resources and school supplies.

If school boards receive significantly less money through the new funding model, the gap which already exists among schools will only grow wider. Those children attending schools in less affluent communities will suffer the most.

The public does not support further cuts to education budgets. When reminded that increased spending on education may result in higher taxes or an increased deficit, five in 10 Ontarians approve of the current levels of funding for elementary and secondary schools; four in 10 believe that government should be spending more on education; fewer than one in 10 thinks the government should be spending less.

The new funding model must not be viewed as a crass tool to fund the ill-conceived cut in income tax rates. The funding model will be successful if it addresses inequities without impeding the ability of the larger, urban boards to respond to their unique educational and social needs. The funding model will be successful if it supports a wide range of programs vital to the development of children. These programs include physical education, guidance, library, music and art.

The funding model will be successful if it recognizes that classroom teachers are not islands unto themselves and require a variety of professional and administrative supports to do their jobs. These supports include principals, vice-principals, teaching assistants, educational support personnel, occasional teachers, and secretarial and custodial support. If the new funding model fails to adequately recognize these supports and narrowly defines the classroom, then it will fail to provide quality public education in this province.

The current school board amalgamation process should not be viewed as a means to cut funding away from elementary and secondary schools. Any long-term savings achieved through the amalgamation process must be reinvested in the per pupil grants.

Our brief touches briefly on the issue of child poverty. It seems to make sense that social spending cuts are going to affect poor children the most. It also makes sense to invest as a society in social supports which mitigate the adverse effects of poverty and reduce the incidence of poverty. Unless we take this approach, we will be spending more on health, employment and legal costs to deal with the problems associated with poverty.

OPSTF urges the government to increase the funding allocations to social assistance, social housing and women's shelters. As teachers, we also know that children who come to school hungry and stressed are not ready to

learn. Our brief points out that socioeconomic status is a key indicator for academic achievement. It is much more costly to remediate older children who have fallen behind in their academic achievement than to invest in early identification and prevention strategies.

In regard to child care, OPSTF is particularly concerned about this government's approach to that. By downloading 20% of the cost of wage grants for child care staff, resource centres and special needs, the province is placing these programs in jeopardy as municipal governments face budget pressures. By allocating child care funds to the child care tax credit targeted to low-income families, the province is doing nothing more to support the creation or maintenance of quality, licensed child care spaces. By paying 100% of the cost of a voucher and only 80% of regulated child care costs under the Ontario Works program, the province is undermining the regulated child care system and ensuring that most children whose parents participate in the program are relegated to unregulated and often poor-quality care. Thus, those children who could benefit most from quality child care programs will have the least access to them.

The government has also placed school-based child care programs in serious jeopardy. Capital funding for child care space is no longer provided for new schools or for renovating existing school space. It is also expected that the new education funding formula will make it financially difficult for school boards to continue to offer school space to child care programs. Currently, approximately one third of regulated child care spaces is located in schools. Children and families who benefit from the convenience of school-based child care stand to lose significantly from the regressive government policy which is undermining school-based child care.

Securing tenure for school-based child care programs has probably been the most significant policy development for child care in the last decade. School-based child care represents an important first step towards establishing a model of integrated children's services. Instead of moving closer to this model through a series of funding cuts and policy changes, the Harris government is dismantling the fragile basis of integrated services. I refer you to our four recommendations regarding child care on page 15 of our brief.

Finally, since the government has raised the issue in the context of the provincial budget, I would like to turn now to the teachers' pension fund. It is irresponsible of this government to imply, through the budget and subsequently through the finance minister's economic statement in December, that there is a plan to establish an early retirement incentive program for teachers. This committee should be aware that the Ontario Teachers' Federation is fully prepared to enter into formal negotiations regarding improvements to the teachers' pension fund, including a reduction to the current 90 factor which determines the teachers' eligibility to retire. We are fully in agreement that an early retirement option would be an important vehicle to accommodate the entry of younger teachers into the profession. OTF and its affiliates are not interested in a temporary, short-term retirement window, which would be a costly initiative that would only benefit a small number of the plan members. The teachers are committed to negotiating permanent improvements to the plan with our government partner. The OTF proposals would introduce improvement through gains generated by the plan, with no additional funding required by the taxpayers. A settlement would not increase the provincial deficit.

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In conclusion, education is about idealism. Our members would not be in the teaching profession if they did not have optimism about their ability to positively affect the lives of their students. The policies of this government, however, which are tearing away at the financial and social supports for children and which are eroding the foundations of public education, are making it extremely difficult for teachers to sustain that optimism.

Teacher morale is at all-time low in this province. OPSTF urges the government to reassess its policy on tax cuts, which are being implemented at the expense of social programs and public services. The federation urges the government to listen to teachers who are saying that they cannot meet the needs of their children when education budgets are slashed and the classroom is defined to exclude key programs and support services. The federation urges the government to listen to Ontario citizens who, through public opinion polls, are telling the government that it is moving too far and too fast and that they are willing to pay for quality public services such as our public schools.

In closing, I would like to direct you to our recommendations, which are listed in the brief on page 18. Thank you, Chair.

The Chair: Thank you very much, Ms Benedict. We have approximately 10 minutes for questions. I think on day three I'm to start with the government caucus. Are there any questions?

Mr John R. Baird (Nepean): Thank you very much for your presentation. We appreciate the time you took to put it together, and we'll certainly reflect on your list of 13 recommendations and give them some thought.

I did want to talk to you briefly about the early retirement incentives for teachers. I know a good number of teachers in my constituency are concerned about this issue and I know you recently have indicated you're interested in going back to the table to start this process. How likely do you think it is that the Ontario Teachers' Federation would be able to come to an agreement with the government with respect to the $250 million that the government has already committed towards an early retirement incentive for teachers? There could be significant savings if instead of teachers making $65,000 at the top of the grid new teachers were making $32,000 and at the same time assisting those teachers who would like to seek early retirement. How realistic do you expect that would be?

Ms Benedict: Mr Baird, it would depend entirely on the government's commitment to sit down with formal negotiations. We have seen in the past two years that three attempts at informal negotiations have failed miserably. If

we enter into formal negotiations, there's a commitment by both sides, the teachers' side and the government's side, to see the process through to an end and not be able to walk away from it.

We have said over again that we appreciate the fact that we would like to make permanent improvements to the teachers' pension fund and to do exactly what the government has been saying now for two years that they wanted to do, which is to rejuvenate the teaching profession. But we would like to see that be able to happen on an ongoing basis, not just on a one-time opportunity that allows only a small number of people to exit at one end and to enter at the other.

You have pointed out the difference in salary between a teacher at the top of the grid and at the bottom of the grid. We would like to see that be enabled to happen on a regular basis, but unfortunately we can't go anywhere until we can sit down and have the government's commitment to sign formal negotiations.

I would like to turn you if I could, please, to my general secretary, who happens to be the pension expert from OPSTF and also sits on the Ontario teachers' pension board.

Mr David Lennox: The key is that school boards, teachers and government are going to be looking in March and April, more April, with regard to staffing for September, and so the critical issue here is if you can get into formal negotiations, you have to have a second commitment from both sides. The second commitment is to get an expedited process, because it's no good to have negotiations end next December when you need them to end for, let's say, the end of April, so people will know what the rules are for May and June.

I think it's critical upon the teachers' side when they enter into it to know that it has to be an expedited process so we can get the success rate that we both want to achieve, so we don't end up having layoffs this fall and so we have teachers who wish to retire get out. That's the other part of the bargain, to get formal negotiations but also to get the government and the teachers, and it takes a commitment on both parts, to get it expedited quickly. Two weeks, three weeks, you can have it done.

The Chair: Excuse me. I have to interrupt and move on to the official opposition.

Mr Gerry Phillips (Scarborough-Agincourt): So many questions, so little time. I could pursue a little bit more the pension issue because I think for our committee this is actually a huge issue. In the finances of the province, the government shows expenses this year of $555 million for the teachers' pension, but the government says they actually made cash payments of $1.145 billion. Actually, that was the cash payment into the teachers' pension fund. On our books it's $555 million; the cash payment was $1.145 billion.

That's the answer that the minister gave me in his written response to my question. So there's this $600 million difference between what's on the books, if you will, or the public account or our financial statement, and what looks like cash being put into the fund each year. The minister indicated that the difference between cash payments and what was recorded in our statements over two years was $800 million. In other words, the taxpayers actually put out $800 million more in cash than we show in our financial statements.

I'm having difficulty in understanding where that's going. I think the majority of that is the payments against the unfunded liability, if I'm not mistaken. It's the $500 million that is not being recorded on our books. I realize we may not have time to get into the detail of it today but, in your opinion, what is the number we should be thinking about from a financial point of view in terms of the annual commitment that the province realistically has to the teachers' pension?

Ms Benedict: I'll refer to David for a response to that.

Mr Lennox: There are two commitments that you have already stated, and only two. One is the matching contribution of 8.9% that matches the teachers' contribution and that is annually approximately between $650 million and $700 million. The other point is the unfunded liability. That ranges slightly above $400 million each year and will escalate over the time period to pay off the unfunded liability. So both of those are commitments that the government has to the pension plan. One is the annual ongoing cost and one is the cost that pays for the unfunded liability that was decided back in 1991.

The Chair: Thank you, sir.

Mr Phillips: Is that it?

The Chair: You've got a couple of seconds if you want to use them.

Mr Phillips: Just to the committee, I think it would be valuable if we had that laid out for us, because there is I think about a $500-million to $600-million difference between what I'm told we're paying in cash, if you will, money out, and what's recorded on the books. I'm trying to get the reconciliation of that, but it may not be for you but for the committee to somehow request that from the financial officials before we adjourn.

Mr Tony Martin (Sault Ste Marie): Thank you very much for coming this morning and for such a well-prepared and documented list of concerns re the question of education in the province. I'm going to try and place my comments and question in the context of the committee that you're coming before, the finance and economic committee, as we look towards the budget of this year.

It seems to me, if we're going to invest in the future of this province, that education has to be a fundamental building block, one of the key ingredients in any positive future that we might have together as a community of people. When you look at the list of concerns that you've raised — small schools being closed, the issue of child poverty, the move away from early identification and prevention programs, the move completely out of the area of junior kindergarten and the very simple response of this government to what they claim is a crisis in education which says that if we put less money into it, we'll fix it — it seems to me that when you make the statement that this government is going too far, too fast, that really isn't strong enough. My opinion would be that in fact this gov-

ernment is going in the wrong direction, that they're putting their money in the wrong place if they want a future for us collectively, for communities and for families and for children. Would you not agree with that?

1030

Ms Benedict: I would agree with your premise entirely. We were pointing out that they were moving too far and too fast. We've been accused, as a teaching federation, of not supporting any government initiative when it deals with education. They continually make reference to accountability and to standardized testing and implementation of a standard curriculum. We're definitely not opposed to that but to the rapidity of the change and the lack of supports for the teachers out there.

A good example is that recently, with the new report card, boards trying to make it work had teachers working on computer systems till past midnight each night so that the computer systems could accept the new report structure, and then teachers spending countless hours doing extra secretarial work needed just to implement that one aspect of change. It's good to have a standardized report card, but get all the bugs out of it before it goes to the school and don't already put another burden on overloaded teachers.

Our concerns are great where they're pulling out of things, especially with early childhood and early identification. We will work with this government. We guaranteed smooth transitions into new school boards if they will work with us, and we haven't seen a commitment from their side on that.

The Chair: I'm going to have to interrupt you there. Our time is up. I thank you for coming. We appreciate your submission.

C.D. HOWE INSTITUTE

The Chair: The next presenter is Bill Robson from the C.D. Howe Institute. Welcome.

Mr William Robson: Thank you very much for the opportunity to be here today. It's flattering to be invited and it's also a pleasure right now because it's unusual for a round of pre-budget discussions to get under way with circumstances as promising as they are right now.

Ontario's economy is growing well. Job growth is healthy and consumer and business confidence are high. There are a few shadows being cast by the Asian crisis and the Bank of Canada's reaction to the weak Canadian dollar, but even with those things taken into account, the outlook, certainly for the next year, is good. That's true for Ontarians generally and it's also true I think for the government's fiscal situation.

When the outlook is that positive it suggests that now might be a good time for us to look a little further ahead than we often do in thinking about Ontario's budgetary policies. I want to take my cue here both from recent discussions in the provincial Parliament, and I think in this committee, and from the evolving debate in Ottawa and say a little bit about longer-term programs for debt reduction and the payoffs they offer. In case this seems a little otherworldly at the moment, I will observe my instructions here and leave half the time for questions so that you can drag me back to reality before this session is over.

Let me set the stage for this longer-term discussion by highlighting three things about the current situation.

First, robust economic growth is going to keep provincial finances healthy at least through this year. Tax revenue especially is coming in well above budget projections, as you know.

Second, there are a number of restructurings going on in health, education and the municipal sector. They are going to pre-empt part of that extra fiscal room. They also are a major drain on the government's managerial capacity. Transitions cost money; they require a lot of attention. If those things aren't there, then they can be more painful than they need be. I see this important claim on new revenue and also on time and talent as precluding any new spending programs over the next couple of years.

Third, even with those extra demands taken into account, the government now looks to be about a year ahead of schedule in its quest to eliminate the deficit, so the 1999-2000 fiscal year could well be the one in which Ontario stops adding to its debt.

Most of us would probably agree that it's a good thing if you stop adding to your debt but, as the current debate in Ottawa shows, a good thing is no guarantee that you'll have a good time. The federal government's election program, inasmuch as you could figure it out, involved a good deal of new spending once the budget was balanced. Now they're having a hard time adjusting to a change in public sentiment that says we should pay down some debt, at least as a ranking in the front ranks of priorities. Having failed to think straightforwardly about what fiscal policy should look like in the post-deficit era, they are now involved in a confused and somewhat secretive game. That's too bad because there is a good case for getting debt down and there are also better and worse ways of doing it.

I brought a piece, but unfortunately not enough copies for everyone, that Bill Scarth from McMaster University and I put out late last year, arguing that the federal government should adopt a long-term plan to reduce the debt. As you know, there are a lot of arguments bearing on what the right level of government debt is. It's a hard answer, but our reading of the federal government situation is that a debt target of 20% of Canada's gross domestic product achieved over 20 years makes a lot of sense, and we thought 20-20 was perhaps a good slogan, but that's not our reason for adopting that target and that time frame.

The principal reason is that Canada faces a major demographic shift and we're going to start really feeling it in about 20 years' time. Baby boomers are going to start collecting pensions and their demands on public services, particularly health care, are going to start rising as they get older. There will be proportionately far fewer working-age people to support them by then.

To cushion the blow that this shift would otherwise deal to the living standards of generation X we may at that point want to start letting public debt rise again. You could think of this as kind of like a Keynesian budgetary

policy where you're smoothing out economic cycles, except in this case you're looking at a much longer-term transition and thinking about trying to smooth that out, using the government budget. So it's Keynesianism on an intergenerational scale.

The trick here, though, is that we're only going to be in a good position to do that if we pay down some debt first. When you think of the gap between the taxes people pay and the benefits and services they get from government in return, the payoff from that kind of program, cutting Ottawa's debt from where it is now, about 70% of GDP down to 20% of GDP, is huge. For one thing, you save on interest costs. The other thing — it's a bit more subtle, but because if you're going to maintain a steady ratio of debt to GDP, you can let the debt grow at the same rate as the economy, once you fit that target the budget can move back into a small deficit again.

If you add those two payoffs together, in Ottawa's case the long-term payoff from getting the debt down would be over $6,000 for a family of four in today's money; more in the money of the day, but if you translate it into today's terms, $6,000 for a family of four.

It sounds like an attractive target in that sense. Then there's the question of how to get there. The temptation with any long-term target, and it's true whether you're a family or a business or a government, is to approach it slowly. But there are a number of problems with a slow approach. First, if you pass up the opportunity to make quick progress while the economy is strong at the outset, then you may end up getting stuck trying to make up for it when the economy is weak or abandoning the project.

The second one — it's a bit like a smoker who decides that he'd like to quit but won't go cold turkey — you raise doubts about your commitment. For government, doubts about commitment matter because they can affect household and business confidence and they can also raise your borrowing costs.

There is a third and related reason. A slow approach promises that you're going to have a long period of belt-tightening. Then when you get to that final point where suddenly you can switch and let the budget move back into a small deficit, there is a sudden binge of new programs or tax cuts. If you think of a homeowner who anticipates the payoff of a mortgage and starts to let credit card debt run up in advance of that, you may end up in a situation where you're tempted to start the party a little too soon and you never end up actually reaching your target.

Thinking about those arguments or to decide between steady or back-loaded programs or front-loaded programs where you start to make progress quickly, we thought that in terms of Ottawa's situation what we needed was a front-loaded program, a few years of sizeable surpluses to kickstart this decline in the ratio of debt to GDP.

A front-loaded program does two things: It brings some of the payoff in interest savings forward in time so that rather than whittling away, whittling away, whittling away, you can bring in some of the permanent tax cuts or program spending increases you might like to see earlier, and it also allows the government to steer the bottom line gradually towards this small deficit that's compatible with a stable ratio of debt to GDP instead of promising in effect for 20 years to keep the foot on the brake and then, in the 21st year, tromping on the accelerator.

In Ottawa, it seems as though the polling numbers that they are looking at, and also I think Paul Martin's own sense of prudence, are suggesting to him that a few years of healthy debt paydowns would be good budgetary policy. The problem is that there is an election commitment out there to spend half of any projected surplus, and there is also a fair amount of pressure for tax relief. So instead of a clear program in Ottawa, we've got a fair amount of confusion.

1040

That's enough about Ottawa. What about the real world, where it really matters to people? If we look ahead, and I don't think with excessive optimism, to the situation in fiscal year 1999-2000, the Ontario government is going to be in the same position that Ottawa is in now, also trying to frame some kind of post-deficit policy. I didn't spend all this time talking about Ottawa just to give you something to nag your federal colleagues about, although if you want to do that, I would certainly encourage you. It's just that many of the same considerations that I mentioned in thinking about Ottawa apply to Ontario as well.

Again, when it comes to setting a target, it's hard to nail down a level for the ideal debt, but certainly we have an idea that it would be better to have a lower debt than we do today. A low debt-to-GDP ratio is easier for Ontario to achieve; we're starting at a level of about 30% of GDP instead of Ottawa's 70%. There are also some prudent arguments for Ontario to adopt a lower target than Ottawa.

Aside from pensions, a lot of the impact of an aging population, particularly health services, is going to fall on the provincial budget. Ontario also has quite a large contingent liability in Ontario Hydro. But there is an argument on the other side, which is that Queen's Park makes a lot more important infrastructure investments than the federal government does, and there is a well-known case that says you should finance infrastructure projects with debt so the benefits and the costs of paying for them will be matched over time better than if you expense them all right away.

Just to illustrate, suppose we decided that here in Ontario we should aim for a level of debt that approximately matches our stock of physical assets. I'll be open to correction from anyone who knows more about this than I do, but I'm going to suggest that would justify a debt level of about 10% of Ontario's GDP, so 30% down to 10%, and suppose we were to do that over the same 20-year period that I was talking about in connection with Ottawa. By the end of that period, the payoff, this combined interest savings plus that little extra bonus you get as the budget moves back into deficit, would be about $3,000 for a family of four. Again, that's in today's money. If you wanted to go all the way to zero, the payoff would be a little higher, about $3,500 in today's money. Obviously, that's a lot of money. You can finance a lot of health care

and education or some serious tax cuts with that kind of payoff.

How about getting there? We don't know, looking ahead to the year 2000, what the economic environment is going to be like, so the speed that we might start off on that program is going to vary depending on whether we're still growing quite rapidly or whether we've gotten back to something that's a little more typical of long-term experience. Setting aside the cyclical arguments, the same considerations that I was talking about in Ottawa apply to Ontario. If you front-load the program, it brings the payoff from lower interest costs forward in time, and front-loading is credible in a way that back-loading isn't. It allows you to approach that small deficit that's consistent with a stable debt ratio gradually instead of looking forward to some kind of terminal binge that you might want to bring forward in time and abort the program.

The other encouraging thing to note about Ontario's situation is that kickstarting a debt reduction program doesn't involve anything like the same amount of stress that would be true in Ottawa. In Ottawa, to get off to a quick start in reducing your debt from 70% of GDP down to 20%, you need surpluses over the next five or six years of about 2% of Canadian GDP, which is about $20 billion annually. In Ontario, we need to bring our debt down by much less, from 30% to 10%, so you don't need anything like the same kind of surpluses. A front-loaded program here in Ontario that would get us off to a very quick start — we'd be about halfway there in terms of the debt target in the space of about six years —would only require us to run budget surpluses that are about two thirds of a per cent of Ontario's GDP. Two thirds of a per cent of GDP is about $3 billion annually in today's money.

Aiming for a zero debt in 20 years would be a little harder. You'd need surpluses of about $7 billion over those first few years. Looking ahead to the end of this decade, it seems as though if we project forward and say, "What if the government was to just collect the same amount of money in taxes relative to the economy as it probably will," and I'm allowing for the final stage of the personal income tax cut, "and what if it allowed program spending to continue to grow in line with population growth and inflation?" we would have budget surpluses that would be more than adequate to get us well on the way to that 10% of GDP target in 20 years' time. In fact, that type of budget surplus would be close to the level we would need to get us to a zero debt target in 20 years' time.

Let me conclude, then, by reminding you that I took the liberty here of describing the situation as we will face it if the budget is balanced in 1999-2000. Before getting to the pleasant task of wrestling with post-deficit priorities, Ontario obviously still needs to balance the budget. There are some transitions to finance, as I mentioned. There is a managerial task here. The government has to pay careful attention to its ongoing operations. It's clearly important that the providers of services are motivated to make sure that the largest share of every dollar spent goes to the front line.

I have to mention here that I continue to be impressed with what Alberta has done with the quality-of-life indicators it publishes related to various government services. I think that's a very good way of promoting public discussion about what program priorities should be, and it provides a very valuable monitor of the quality of front-line services. Clearly, the quality of front-line services is what is going to largely determine the willingness of the public to follow any fiscal strategy.

With careful stewardship on the spending side and continued buoyant revenue growth, Ontario faces the agreeable prospect of a balanced budget by the end of the century. I want to leave the message that we'll be in better shape to deal with the post-deficit world if we have a clearer idea of how big the rewards of debt reduction are and how we should go about winning them. It seems to me the message is that when it comes to the rewards of debt reduction we should think big and we should act fast.

Thank you very much for your attention. Now it's over to you for the reality check.

The Chair: Thank you very much, Mr Robson. We have approximately three or four minutes per caucus and I'll start with the Liberal caucus.

Mr Monte Kwinter (Wilson Heights): Mr Robson, in your presentation you talk about our being in a fiscal dividend period with a balanced budget, and then you call for a provision that there be a small deficit that's compatible with the ultimate debt target. How does that fit with the thrust, I think even of this government, to bring in legislation to prohibit deficits?

Mr Robson: If you had no debt and you wanted to keep it that way, then the budget bottom line would obviously have to be zero all the time. If you decide it's appropriate to have a debt that is, say, 10% of the economy, then as the economy grows you can allow the debt to grow and you can have a small deficit every year. If you think my idea of relating it to the amount of capital spending that you do makes sense, then you're going to be deficit financing as you add to new capital, and that's a fairly standard thing to do.

Looking over this very long time period, if you decide you're comfortable carrying some kind of debt forward, then you can run a deficit every year. But when it comes to getting from here to there, to that longer-term situation where we're with a debt ratio we're comfortable with, it makes sense to try to run a balanced budget, or even some surpluses.

My perspective here was very long term, and over the long term the merit of getting to some kind of low debt ratio that you're comfortable with is that you can run a small deficit, but in terms of getting from here to there, it's important not to anticipate that too much. I think that's the problem that has happened in Ottawa. There is a vision out there of an enormous payoff when the debt comes down, and it's easy to produce those numbers. You crank forward and say, "Look, in 20 years' time we're going to be rolling in dough." But if you start to spend it before you actually see it, then you can get into trouble. So I don't see

anything incompatible in the shorter term with running a balanced budget or a budget surplus.

1050

Mr Phillips: I was very interested in your comments on the quality-of-life indicators. I think that's something the committee should consider. Can you give us some examples of those quality-of-life indicators that you see in the Alberta finances? What are they?

Mr Robson: I didn't bring a copy of it with me, but they pretty much cover the gamut. There are ones related to health, education, the state of the environment, some social indicators that aren't so readily interpretable as being the result of any individual government policy in terms of teenage births and so on. But it seems to me that's a very handy way of getting out front a lot of the things that people generally — and I think a lot of these things are a matter of concern across the ideological spectrum — getting those things out front and making sure you're watching them on a year-by-year basis. Clearly it exposes governments to all sorts of risks, but early warning systems are a large part of what good public policy is all about: If you see something moving in the wrong direction, you've got something out there.

People in Alberta could say more about this than I can, but it seems to me that to a considerable extent it establishes a set of indicators that are a little bit less open to the regular partisan problems in terms of interpreting and exactly what information you're going to look at to support your case. Those indicators are out there and people are watching them on a year-by-year basis.

In the case of Ontario, obviously we're having debates right now about issues connected with health care and education, the environment, some of the things that are happening in the municipal sector. If there were a set of indicators that were like that, I think it would be very helpful for us in terms of monitoring how we're doing and maybe helping to shift the debate away from areas where things aren't as bad as we sometimes say and towards areas where there seem to be problems.

Mr Martin: I'm going to try to drag you back to a bit of reality, as I experience and see it, anyway, when I go back home to my constituency and talk to the people I represent and who bring to my office and to me, in various ways, their feelings about what's happening out there and how they feel about the future etc. It's not as good as some might project it to be. Certainly there's lots of anxiety among young people in college and university about their future and how they will participate and if they will in fact be able to participate. Communities feel very vulnerable at the moment re their ability to provide for the people who live within their jurisdiction.

I don't think any of us here, no matter what political stripe you are, don't believe some reasonable balance of debt-to-equity ratio in any enterprise is important and that we need to be accountable and realistic in front of that. You can't spend more than you're getting if it means down the line you're going to be in big trouble.

For the two days I've been sitting at this committee, I've heard suggestions that there are probably two or three different ways to get to a more acceptable level of spending versus revenue. It comes down to choices and underpinning philosophy. For example, does an economy or an economic system serve people and communities or vice versa? If the system begins to cause the kind of trauma that some of us are sensing is out there and are hearing is out there, is that a red flag? Is that an indicator of something happening out there, a quality-of-life indicator that we need to be concerned about?

Trying to boil it down to a specific question, with some of the choices the government of Ontario continues to make, for example, to give a tax break at the expense of some very vital and important services that are now deteriorating to a point where we may lose some of the fundamentals of a good economy into the next century, is that not a problem? We've had people before us here suggest that if we weren't so stuck on the tax break, we could in fact balance our budget even sooner and end up with less debt by doing that. Is that something you have some thoughts about or some concern about or perhaps could enlighten us a bit about here this morning?

Mr Robson: The last time I appeared in front of this committee, I did express ambivalence about this issue of giving your tax cut ahead of balancing the budget. It seems to me that, as a matter of prudence and placing your bet as to where you're going to make the most secure decision, where the payoffs are most certain, paying down debt makes a lot of sense, and then once you have saved some money on interest you're in a position to start paying that out, in a tax cut if that's your preference, if you see some real need on that front, or on programs.

In addressing advice to Ottawa, we spin a little heavier on the tax side, for the reason that one of the biggest problems we now have in Canada is the effective marginal tax rates that face low- and modest-income earners. There are a lot of reasons for that; it has to do with the structure of the tax system and it also has to do with the way the various benefits are clawed back as you start to earn some money. That's a big problem, and some of the barriers you alluded to early in your question arise from that problem, that at low and modest income levels people are keeping far less than half of every additional dollar they earn. In giving advice to the federal government, we tended to argue that when you start saving some money on interest, you ought to pay it out in tax cuts.

Here in Ontario, as I said last time I appeared before this committee, I was nervous about the tax cut. I would have preferred to see more progress on the bottom line first. The big merit of a tax cut from the point of view of the overall economy is, does it have the supply-side effects that originally gave the intellectual backing to the movement for tax cuts, first in the US and then here? If you look at Ontario over the last year and you compare the performance of Ontario's labour market to those of other provinces, you can see a lot of reasons for thinking it did some good. There are more people coming into the labour force now in Ontario than is typically the case elsewhere in the country. There are certainly more new jobs being created. So my nervousness is a little assuaged.

It seems to me, though, addressing the third part of your question, about whether the tax cut was the better thing to do — I will just remind you again of my point about the very high marginal tax rates that face low- and modest-income Canadian earners. Ontario's tax cut was well geared to addressing that problem because it concentrated its benefits at the low end.

When you're addressing the question of whether we would have been better off investing in some of the spending programs, that's where I come back to these quality-of-life indicators. Education is a debate I've been involved in myself, and one of the things that is enormously frustrating about that is we don't have any such thing. People have defaulted to the view that money is some kind of measure of quality, but there's actually a lot of evidence, when you look around the world or across North America, that money and results simply aren't related to each other in any systematic way.

That is where we need to make more effort to set out what these standards are that we are trying to achieve with our programs. In health, are we monitoring the waiting periods people are experiencing or are we just going by the headlines we see in the paper day by day? Are we monitoring infant mortality and life expectancy? In education, I could mention some indicators as well, but I think across the board one of the problems we have is that we're operating in a vacuum and we need better information on that front.

The Alberta report I mentioned, by the way, is called Measuring Up.

The Chair: We have to move to the government side now.

Mr Ted Arnott (Wellington): Thank you, Mr Robson, for coming in and for your comments. It's always kind of exciting when there's an idea you've been promoting for a while and someone with credibility comes in and reinforces everything you believe and the point you've been trying to make, so thank you very much.

Mr Robson: You're very kind.

Mr Arnott: One of the problems, though, we have in going forward in the direction you've suggested is that we live in a society that craves instant gratification. People who find themselves on the left of the spectrum want the government to spend more instantly to solve every perceived social problem. Some people on the right believe we should cut taxes immediately, whether or not there's a huge debt, because they believe that would generate a positive economic situation. We also have a political system where most governments think in terms of a four- or five-year electoral cycle more than the long term, and what you're suggesting requires long-term fiscal discipline. How do we get around that problem in terms of continuing to promote the need for debt reduction?

Mr Robson: It's a problem that in some sense you can't solve. There will always be pressing needs that come to the fore and are hard for anyone to set aside. I think there's an unfortunate tendency among economists to denigrate the idea that you can draw parallels between government finances and household finances. I think it's entirely appropriate to draw those parallels. A lot of what provincial and municipal governments do by way of service provision is providing services to people that in some sense substitute for the things they might otherwise have to pay for themselves. That's certainly the case in health care and education, a lot of municipal services and so on. How do you pay for them? Obviously you pay for them out of your income. There's a pricetag that's attached.

When it comes to deciding what's the prudent stance, it seems to me that the same sort of considerations that a household faces when it comes time to decide whether to borrow or not apply directly to governments. You can borrow now, but you'll have an interest bill to pay later. It's important, I think, just to convey to people the idea that these are choices that are being made on their behalf; $3,000 per family of four is a number that I think speaks to the average family of four. It's just important to get that message across.

1100

Sometimes what governments do is at one remove from people's ordinary decisions. They think: "It's the government. It doesn't affect me." But by now we've developed a lot of experience with deficits and debts and taxes and programs that I think has brought home to people the reality that what government does affects them in their daily lives and I think it's appropriate for governments to communicate to people that this is, in effect, part of your life and part of your household budget. We take this much money from you, we provide this much in services. If at the moment you are paying several thousand dollars a year more in taxes than you're getting in programs because of the interest bill, there's an obvious solution to that, and that's to pay the debt down.

Right now, we're seeing some polling numbers that suggest that message resonates with people. It depends how you ask the question. There are certain services people like very much and there are certain tax cuts that are more popular than others, but when you ask people to make those broad choices, I think the option of paying down debt is one that strikes a lot of people as quite sensible.

The Chair: Thank you very much, Mr Robson, for your presentation and your time this morning. We're out of time. I do appreciate it.

ONTARIO CAMPAIGN 2000

The Chair: Our next presenter is Laurel Rothman, Ontario coordinator for Ontario Campaign 2000. Welcome. You have 30 minutes to use as you see fit.

Ms Laurel Rothman: Thank you. I'll ask my associate, who is a partner in Campaign 2000, to introduce himself.

Mr Domenic Storti: Good morning. I'm Domenic Storti. I'm representing the Social Planning of Council of Peel. I'm here to discuss the state of child and family poverty in Peel.

Ms Rothman: I can't help but say it's quite interesting, the contrast between what I think Mr Robson has

commented on and perhaps what we will be saying from our network's perspective across Ontario.

Campaign 2000, launched in 1991, is a network of more than 60 national, provincial and community partners dedicated to advancing public awareness about child and family poverty and proposing policy options for government action and complementary strategies for community partners. It was formed with the specific goal of ensuring that the federal government upholds its commitment, undertaken in a unanimous, all-party resolution in the House of Commons in 1989, to end child poverty by the year 2000. Most recently, in recognition of the heightened interest and activities of the provincial governments through the ministerial council on social policy and other channels, Campaign 2000 has broadened its provincial focus. In Ontario, our network of provincial organizations and community partners includes nurses, clergy, social workers, child care organizations and many other local groups.

On December 1, 1997, Campaign 2000 presented its first report card on child poverty in Ontario, which I believe you have before you. It identifies a most disturbing situation, that there are 506,000 children in poverty in Ontario, about a quarter of a million more than there were in 1989 when the federal resolution was agreed upon. This increase is hard to imagine, yet it is about the same size as the city of Windsor or four times the size of the population of North Bay. In any terms, this is a serious change.

Another equally disturbing fact is that the rate of child poverty climbed from 11% to 19.1%, the highest increase in Canada. This dubious distinction is not one that Ontario has traditionally held. While Ontario is, I would say, slowly climbing out of the recession of the early 1990s, the rate of child poverty continues to increase. I won't claim to be an economist, but I certainly am a public educator and social worker engaged and involved with families and services across the province, where I hear this.

In addition to these worrisome facts, it's essential to note that the depth of poverty is also greater; that is, the average income of a poor family as defined by the Statistics Canada low-income cutoff has decreased, even in constant 1995 dollars. In 1989 the average income of a poor family with children was $18,773, by 1995 it had decreased 9% to $17,000, and this average poor family in Ontario was 35% below the cutoff. From another perspective, that average poor family had about $1 available for every $3.54 that the average family with children in Ontario had.

These facts describe the situation for poor children and families in Ontario in 1995, the most recent date for which there are available statistics. The data on 1996, which will soon be available, we certainly expect will demonstrate the full impact of the funding cuts to more than 400,000 children and their families who rely on social assistance. The decrease in social assistance rates of more than 21% in 1995 leaves many poor families more vulnerable than ever.

As the average income of poor families goes down, that gap between the average income of a poor family and the poverty line will most likely widen. Closing that gap, both for individual families and society as a whole, will require a significant public investment, estimated at $2.5 billion.

Coupled with the extensive cuts to children's services, including public health and hospitals, education, child care, resource centres and children's mental health services, these cuts to social assistance have taken a personal toll on families across Ontario. This is not just a Toronto problem. The human cost is indeed high, as was documented in the recent report of the standing committee on social development, where witnesses from across the province emphasized that the cuts to critical services, including mental health, child protection and welfare, children's health and education, will have a cumulative and long-lasting effect.

My colleague is going to talk a little bit about the situation in the region of Peel.

Mr Storti: The Social Planning Council of Peel is an independent, non-profit organization that promotes social justice by facilitating citizen participation in the identification of social issues and in the planning and implementation of collaborative actions through research, public education and community development. One such relevant social issue in the region of Peel is the existence of family and child poverty. Most discussions around poverty tend to focus on Toronto, but few are aware of the extent of this problem in the region of Peel.

Much of the following information I'm going to be presenting is taken from the Social Planning Council of Peel newsletter on preliminary estimates on family and child poverty, which I have submitted, and I think each of you has a copy right now.

Who is poor in Peel? What is most alarming in this day and age is the fact that the number of children age zero to 18 living in poverty in Peel is 27,672, or 11.4%, and that the probability of a child age zero to 18 living in poverty is one in nine. Some may be surprised that the city with the highest child poverty rate is Mississauga, at 12.7%, or 19,273. In terms of poor families, Peel has 21,047 families living in poverty, and once again Mississauga has the highest percentage of poor families in Peel, with 10%, or 14,869. In terms of the type of family, lone-parent families with children are more likely to experience poverty than husband-wife families with children, 36.6% and 8% respectively.

It is worth noting that between 1991 and 1996, the number of poor families in Peel increased by 24.8% and the number of poor children age zero to 18 increased 15.8%. This is a definite sign that the state of family and child poverty in Peel is continuing to grow and will only become worse as we approach the new millennium.

In terms of gender, one in nine females, 10.7% or 45,895 — that's children and adults — live in poverty, compared to one in 11 males.

People with limited or no literacy skills are more likely to live in poverty. Adults without a secondary school or post-secondary certificate were almost three times as

likely as adults with a university degree to live in poverty in Peel. In fact, according to a report by the Social Planning Council of Peel for the Peel Adult Learning Network, one in five — that's 21% — of adults in Peel cannot read or write at an elementary level. Thus, as one can see, family and child poverty is very much a reality in the region of Peel.

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What are some of the indicators, ie, signs of poverty, in Peel? One very clear indication is food bank usage. One of the largest food banks in Peel is Foodpath. From January 1997 to August 1997, an alarming 30,181 people used Foodpath Food Bank. Of these, 13,574 were children, about 24% were working poor and approximately 30% were single parent families.

Another sign is the number of people on waiting lists for affordable housing. As of November 1997, some 9,071 people were on the waiting list for housing. It should be noted that the average waiting list for housing is one to three years, but many have said that this figure could be as high as six years.

For many, access to child care is difficult. Although many poor families are eligible for subsidized child care, the number of subsidized child care spaces available is not enough to meet the demand in the region. As of November 1997, some 5,700 children were on a waiting list for subsidized child care spaces.

When you take all of these factors into consideration, what then are the consequences of poverty on families and children? For one, poor children are at a greater risk of living in poor health even in adulthood. Developmental delay resulting from malnutrition in the earliest stages of a child's life contributes to generational poverty.

The rate of children not in school is twice as high in poor families as it is in families living above the poverty line. Poverty itself is abusive and places people at a higher risk for violence. Poor children are more often exposed to violent family environments.

What can be done to eliminate family and child poverty? As individuals, we can educate ourselves about poverty issues. We can support Campaign 2000 and related initiatives through donation of time or money. We can call or write our local MP or MPPs to urge action to combat family and child poverty.

As elected government members, you have the ability to review policies and programs and to make structural changes that will have long-lasting impacts in the area of child and family poverty. This is where your energy can be focused.

Thus, as one can see, poverty is not a vacuum that exists only in Toronto. Poverty is all around us. Where do we start to deal with poverty in a constructive way? We start with ourselves. We start with our hearts to be more compassionate.

I'm reminded of recent events in Quebec and how the entire country rallied together to help support the residents of Quebec during the ice storm. Just imagine what could be accomplished if all levels of government worked together to eliminate family and child poverty throughout Ontario and Canada.

Ms Rothman: Campaign 2000 believes that a comprehensive life cycle approach is the most effective way to eliminate child poverty. This strategy includes:

Income security delivered through a comprehensive child benefit system that both prevents child poverty and bolsters the living standards of modest income families;

Comprehensive, high-quality, accountable child care and early childhood education services delivered by community-based services and local school boards;

Active job creation strategies that include targets and plans to increase the supply of good jobs, including appropriate measures for youth who are unemployed or often underemployed; and

Concrete proposals to meet the needs of poor families for stable, affordable housing.

The national child benefit system, developed jointly by the provinces, territories and the federal government, is an important first step towards enhanced income security for poor families. Under the NCBS, as of this July the federal child tax benefit will be enhanced for low-income families with a combined family income of up to $20,921. They'll receive about $1,600 annually for the first child and $1,400 for each additional child. The enhanced child tax benefit will apply to families with incomes up to $25,921.

However, at the same time the provinces and territories will decrease social assistance payments for families with children, while ensuring that these families receive at least the same level of overall income supports from governments. Provinces and territories have committed to reinvest these funds in services to support low-income families with children.

Partners in Campaign 2000, however, have serious concerns about the national child benefit system as it's designed. First, there's not enough committed funding to narrow the depth of poverty significantly. Second, there has been no articulation of a long-term goal or strategy that would assist poor and modest-income families that are perilously close to the poverty line. Third, and quite importantly, the national child benefit focuses too narrowly on the children of the working poor and ignores children whose parents cannot find jobs in their communities and have no choice but to rely on social assistance.

Quite importantly, the national child benefit system does not address the lack of good jobs but in fact does help to sustain low-waged jobs somewhat indirectly.

Campaign 2000 has particular concerns about Ontario's announced plan for reinvestment. In the 1997 budget, the Treasurer announced the creation of a child care tax credit financed by $40 million announced in 1996 and an additional $100 million from the reinvestment strategy. The budget is claiming that the credit will assist 90,000 families with 125,000 children. For 1997, the credit will provide up to $400 per child under the age of seven for families with incomes up to $20,000.

Campaign 2000 notes that tax measures, especially for vulnerable families, do nothing to develop or sustain high-quality child care services that all families, including low-

and modest-income families, want and require. That $4,000 credit, for which families will have to spend at least $1,600 per year to qualify, is not sufficient to pay for regulated, accountable child care services for a school-aged child. That average cost in Ontario is about $250 to $350 per month, while the average cost of that service for young children is much higher.

This ill-conceived tax measure will force low- and modest-income families into using unregulated care, which is often of unknown or inconsistent quality. Ironically, many families using unregulated care will not even be able to use the tax credit, because unregulated caregivers often do not claim this income and do not issue receipts to parents. We have some evidence from the federal child care expense deduction that supports the widely held assumption that low-income parents using unregulated care cannot obtain receipts. In 1991, families earning $10,000 to $20,000 did not fully exercise the use of the federal child care expense deduction. In fact, only 36% of the eligible children in this category had families who claimed the deduction. So basically we don't think that low-income families who are forced into unregulated care will even be able to use the tax credit.

Instead, we recommend that Ontario not expand the child care tax credit as it reinvests the additional $50 million that has been estimated from the national child benefit so-called savings. Instead, the province should work with the municipalities to ensure there are additional fee subsidies for eligible parents to use in high-quality, accountable child care programs.

The government should also reinstate full funding for junior kindergarten and reinstitute the provision of that program for all families that wish to use it. It's the most efficient way to provide critical early childhood education experiences that have long-term payoff. As a number of the other witnesses commented, much to my surprise — including the Ontario Chamber of Commerce — early childhood education is a wise investment that pays off.

Campaign 2000 also recommends that the government of Ontario undertake what we would call active labour market measures to help decrease child and family poverty. The number of children in families with long periods of unemployment, where at least one parent was unemployed for 27 weeks or more, has more than doubled. Changes to the program now called employment insurance mean that many non-working Ontario parents do not qualify for benefits. Now only one in three unemployed workers in Ontario is eligible for benefits, so many parents are forced on to social assistance.

Other parents find themselves disproportionately in low-wage jobs. Recent data show that approximately 25% of all jobs in the Canadian labour market are below $10 an hour, or about $18,000 per year. The labour market situation for single mothers is alarming. In 1997, more than 36% of single mothers in the labour force were struggling on less than $10 an hour. These are the same people who probably aren't going to be able to use the tax credit and who probably won't have access to licensed child care, since it's either often not available or not affordable.

We contend that dependency and the welfare wall are largely myths that camouflage regressive workfare policies. In fact, the distinction between the working poor and the welfare poor is false; most likely many groups of people find themselves flowing back and forth in both groups during different points in the labour market. The real issue is how to create decent jobs with adequate wages to enable parents to support their children.

We call on the Ontario government to establish targets and develop plans for increasing the supply of good jobs at decent wages, to study local labour markets and to evaluate whether non-standard, poorly paying jobs really do develop into longer-term, secure, better jobs. Where there are shortfalls between the needs of families and the supply of sustainable jobs that provide liveable incomes, then provinces like Ontario, including Ontario, should finance community employment initiatives that create sustainable jobs for families with children.

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As you prepare for the next budget, we urge you to reconsider the underlying propellant of all of your other policies. The tax cut which has benefited upper-income families has often come at the expense of modest- and low-income families and the critical services which they want and require. This is not a direction which enhances the humane yet fiscally responsible communities that most Ontarians want. We urge you to take a U-turn and invest in children and their families. They remain one of the most valuable of Ontario's resources.

The Chair: Thank you very much. We have approximately two minutes per caucus for questioning and we'll start with the NDP caucus.

Mr Martin: You certainly paint a different picture than the previous presenter, as you started out to say. If we're looking for some of the quality-of-life indicators that it was suggested we needed, that he said were missing, it seems to me that you've made an excellent case for a change in approach re this government and some of the people you speak most adequately and eloquently about.

You certainly make a big pitch here today for reinvestment in early childhood education, in day care and that kind of thing. Is there anything else besides that that you think would be important as you look at the communities that you've talked to and in terms of your Campaign 2000 that we should be looking at here re this budget process and something we should be telling this government?

Ms Rothman: Certainly I think we would have no problem saying we think social assistance rates should move towards what they were in 1995. We don't think the situation is so rosy in Ontario, and as I said, many people fluctuate back and forth in and out of the labour market. Sustaining themselves on those reduced public assistance rates is extremely difficult, especially as all the other supports are disappearing, whether it's housing, whether it's quality, reliable child care or other things.

Mr Martin: So then the issue of choices — and this question may be somewhat rhetorical because you know

where I stand on it. When you, as you said, stack up the seemingly only initiative that this government has in place to try and stimulate the economy and create new jobs, which is the tax break, and what you see as a need to invest in the services that particularly poor and moderate-income people need, the choice obviously in your instance would be?

Ms Rothman: Not to continue the tax cut.

Mr Martin: And to reinvest in some of those programs and services.

Ms Rothman: Right, and including taking a serious look at being an active partner again in job creation, good job creation, as I think the Economic Council of Canada talked about in the early 1990s.

Mr Baird: Thank you very much for your presentation. It certainly gives us a lot to think about. I know my colleagues will reflect on what you've had to say.

Maybe just a comment. From reading your report card, from 1989 to 1995, 254,000 to 506,000: That's a terrible record for this province and we've got to do better than that. The number of children on welfare was actually higher than 506,000, which would mean there were children in 1995 on welfare who weren't even counted in the statistics. So I think, if anything, it's probably light. It was probably demonstrably worse than that if you look at the social assistance rates in 1995.

I guess what we've got to do is do the biggest thing. For 69% of children, unemployment was weighing heavily on the fact that they are in poverty. We've got to grow the economy; we've got to do what we can to create an environment for job creation. We know that being an active participant in job creation led to the 506,000 children on welfare. It did not help the situation, and $11-billion deficits hurt the situation. It got demonstrably worse as the deficit went up. We've got to take the opposite approach, to grow the economy.

We can do a number of things: the Healthy Babies, Healthy Children program; the Better Beginnings, Better Futures program; the pre-school speech and language services; nutrition programs.

The tax reduction will take another 30,000 low-income families off the tax rolls, something that the federal government still taxes those families on, but the further 30,000 families won't pay Ontario income taxes any more, which is of further help, as is the $140 million for the national child benefit.

All these programs will help, but the single biggest thing we can do for a child living in poverty is to get their mother or father a job, to get them working again.

Ms Rothman: A decent job, I would add, not a $10-an hour job.

Mr Baird: I talked to one person in my constituency last year who got a part-time job, 15 hours a week working at a restaurant. That wasn't a very good job, but it was a good job for them; they didn't have any job. That person now is working full-time, so it was a good stepping stone.

We know that last month the number of part-time jobs in Ontario went down but the number of full-time jobs went up by 36,000, so we're going in the right direction: fewer part-time jobs and more full-time jobs. So it certainly is a sign in the right direction. Whatever we're doing, we've got to do more, we've got to do better.

I think there is no higher priority than our children, and I guess that's the one message I can certainly agree with you on. A lot of your ideas are worth our reflecting on during the deliberations of the committee, so I appreciate it.

The Chair: I am going to have to interrupt you there and move to the Liberal Party.

Mr Kwinter: Ms Rothman, in your presentation it seems to me that one of the key elements is this idea of creating jobs for these people who are at the very low end of the economic scale so that they can afford to do some of the basic things in looking after their kids. I notice that in your presentation you call upon the government to establish targets and develop plans for increasing the supply of good jobs at decent wages. The government's response has been that governments don't create jobs; the only thing they can do is create the climate for jobs.

We've seen that notwithstanding that the economy seems to be improving, there has been a doubling of the number of children in poverty from the 1989 to the 1995 study. I think, from the figures I've seen, that trend is continuing, notwithstanding that the economy is improving. So there isn't a direct correlation between the economy and what is happening to these children in poverty. Unless someone takes a specific stand to do something about creating those kinds of jobs and programs, it's not going to be solved. Do you have any thoughts on that?

Ms Rothman: Certainly. We've made a number of proposals to the federal government, and now we are developing for the provincial. I think when we talk about active job creation, something to help overcome that statistic of 36% of single mothers in this country earning less than $10 an hour, that includes investment in training and it includes income security so that people can go to post-secondary education to be able to get jobs where they earn more than $10 an hour, and high-quality child care to be able to sustain them in both training and the workforce so we can see a progression for people over time and not this continual maybe getting half a step ahead and falling two steps behind.

So I don't know. At this point, we don't have a plan for a specific job creation program, but I think what we will say from our perspective is that the partner that is missing the most is government.

The Chair: Thank you very much for your presentation and your time here this morning.

COUNCIL OF ONTARIO UNIVERSITIES

The Chair: Our final submission for this morning is the Council of Ontario Universities. The presenter is Ms Bonnie Patterson. Good morning and welcome, Ms Patterson, and if you would introduce your associates. You have 30 minutes.

Ms Bonnie Patterson: Thank you very much, Mr Chair. I am here today as president of the Council of

Ontario Universities. I have with me the chair of the Council of Ontario Universities, Professor Robert Prichard, who in another life is also the president of the University of Toronto. We have as well Dr Paul Davenport, who is chair of our government and community relations committee at the council and also is the president of the University of Western Ontario. Our chair will begin our remarks.

Mr Robert Prichard: Chairman and members of the committee, thank you very much for giving us time on your agenda at what is a critically important time for us to have just a few minutes to try to share with you the intensity of our concern that in this spring's budget the provincial government make a commitment to begin reinvesting in a serious way in public higher education for the young people of Ontario. That's our overwhelming concern.

We want to address three points: (1) the need for a reinvestment in public higher education in Ontario; (2) the needs of our students in terms of student financial aid; and (3) the need for Ontario to enhance its capacity for research and development for ideas and innovation.

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I'll deal with the first matter, my colleague Dr Davenport will deal the second, and my colleague Ms Patterson will deal with the third.

We have a brief that we'll put in front of each of you, and in the back of it there are two maps. I'd like to draw your attention to the maps. These are maps you've never seen before. This is a new presentation from the council. The first is a map of the United States of America, which is the green map, and the second is a map of Canada, which is the red map. I'd like to just take you through and indicate what these maps are and what they tell you about support for public higher education in North America today. What the maps are designed to do is show you what's happened over the past 24 months in every state in the United States and in the 10 provinces of Canada with respect to public funding of public higher education.

If you take the Canadian map first, using colour, where white is no change, pink is a small negative change, darker pink is a larger change and dark red is the biggest negative adjustment, you'll see from the map that in provinces like British Columbia or Saskatchewan, there's been no reduction in public support over the last 24 months for public higher education. In Alberta there's been a 1.3% negative adjustment — that's in the light pink — or minus 4.2% in Manitoba, slightly darker pink. But where the most severe reduction in public support has taken place, as the map makes clear, is in the province of Ontario, where there has been a reduction in the past 24 months of 15.3% in the public appropriation transferred to universities for the purpose of public higher education at the university level.

The second map, which is in your package, is a map of the United States. This is from the Chronicle of Higher Education, and it was actually the Chronicle's map which inspired us to do the Canadian map. This was the cover story of the Chronicle of Higher Education. It shows what's happened in that same 24 months in the United States. Here, red again means a reduction, and you can see that in Hawaii and in Alaska there have been reductions of minus 3%. In all other states, in all 48 states of the United States apart from the two, Alaska and Hawaii, there have been increases in appropriation. Light green is a modest increase in appropriation; as it gets darker it gets larger, and the dark green, like California, to take an enormously important example, gives you a full sense of the difference between the United States and Canada over this period.

The American average is an increase of over 11%. The Ontario is a reduction of over 15%. What we have seen in these 24 months has been this extraordinary difference develop between Ontario on the one hand, and most of Canada and, more importantly, all of North America on the other hand. It's not about the money. The money is not important except in terms of what it can do.

The reason we come and bring your attention to this is what it is doing to the young people of Ontario and the opportunities for them and what it is doing to the universities in their capacity to contribute effectively in the North American marketplace, in the North American competition. Simply, what it's doing is depriving us of what we so urgently need and what the Premier of Ontario has said we must have, which is to ensure that the young people of Ontario have access to higher education opportunities that are competitive with the best in North America. He has also said, and again we concur in his vision, that we must make sure we can attract and retain the leading minds, the leading researchers, the leading teachers in Ontario's universities.

Those are the two things we can't do under current circumstances, and that's why we ask that you as a committee urge the government to commit itself to beginning to reinvest in our cause, not because we want the money but because we want to serve. We want to serve in being able to do these two critical things: give every young person in Ontario the opportunity to study at levels competitive with the best in North America, an opportunity they are increasingly being deprived of today; and second, to attract and retain the best possible minds for ideas, for teaching, for innovation, for research, something we are rapidly losing ground on, losing ground to the rest of Canada, losing ground ever more rapidly to the rest of North America.

That is what brings us to our recommendation, and I will close my remarks with this. Our recommendation to you is that you urge the government of Ontario to commit itself to raising support for Ontario's universities from its current position as 10th out of 10 among the provinces of Canada simply to the national average. If we can have a reinvestment in public higher education, by bringing us back to the national average, with that foundation and then everything else we can do, we think we can get back in business meeting those two objectives: looking after the legitimate aspirations of the young people of Ontario and looking after the needs of Ontario for ideas and innovation.

I now turn to my colleague Dr Davenport to speak about student aid.

Dr Paul Davenport: Our second issue is protecting student access. I want to say a few words about why access is important. It's important, first of all, because universities are a place of liberal learning, where people develop their values, develop skills, develop qualities that will last them all their lives as productive citizens, as family members, as members of the community. But we are also institutions where people learn skills that have a job-market return. Ontario is in a globally competitive, knowledge-based economy. Our government has ambitious targets with regard to job creation and growth. In the long run we will only fulfil those targets, will only become a prosperous, low-unemployment area if we invest in this knowledge-based economy. There's no other way. All our competitors are doing it. We need to do it too.

Professor Prichard has just shown you how aggressively our competitor to the south, our major international trading partner, is investing in this area. That's why we need to protect student access. We need to make sure that the changes going on now in Ontario's universities do not prevent able, qualified Ontarians from accessing post-secondary education.

This past November we had a summit on Ontario universities that was sponsored by a number of our chancellors, in particular the chancellor of the University of Western Ontario, Peter Godsoe, the chairman and CEO of the Bank of Nova Scotia. There was a broad consensus at that summit on what we need to do with student aid. If you'll allow, we've set it out in our brief, but let me go through it very quickly.

We need to give students more funding up front, up-front grants, as we call them, to meet particular needs that they have, students who are parents, who have special needs in other areas. We need to expand work-study programs so that students can earn while they learn. We need to bring in new programs with regard to the experience of our students after graduation. We need to introduce a program of grants and interest relief for students after they graduate, on a means-tested basis, to help out those students who run into difficulty and not force them into default. There's no reason to be forcing many of our students into default; they're a minority of university students, who have a low default rate. It can be lower still if we'll just give them a little help after graduation.

I am hopeful that at the federal level — I would hope this committee and our Ontario government could support this — we're moving towards a situation where the major investment university students make in their education will be interest-deductible on their tax forms, just as if they'd borrowed money to invest in a mutual fund. If you borrow money to invest in yourself in our post-secondary system, that should be interest deductible.

Can we afford it? You bet we can. I would just point you to the graphs we have in our brief to you under "Protect Student Access." That first graph shows the extraordinary earning capacity of our graduates. This is the average of all our graduates. This includes all the students in all our faculties. They do very well on average. The second shows you the unemployment rate. You can see that our graduates have over 50% greater average earning capacity, and they have half the unemployment rate. They will get out there and be productive members of society and they will pay back their loans, but you must help them get to university. You must give them the up-front grants they need to get into university and help them with their debts if they run into trouble repaying afterwards. We have some very specific recommendations in our brief to you that will allow us to protect student access.

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Ms Patterson: Let me close with a couple of comments about what we think is the third element of what needs to be renewed in terms of a commitment, and that is to research excellence.

We believe that continuous learning, innovation and idea generation are the foundations of a knowledge-based economy. In that regard, if you take a snapshot back in time and say, "In 1985, where was Ontario in terms of sponsored research funding?" we had approximately 45% of all federally sponsored research, not unusual for a province of our size, nor for the number of institutions and the nature of institutions in the province. A decade later, however, that number has slipped to 35%. When we then look across the country and see where the gains have been, our concern then is to say, what are the key success factors in helping Ontario gain back that share and take its rightful position?

Our main problem is that this decline is leading to an exodus of our world-class researchers from Ontario, from our universities in the province, to other jurisdictions not just in Canada but also other parts of the world. But it's also making it increasingly difficult for us to attract bright, young, talented faculty into Ontario and then keep them. So our third call on you is to urge the government to renew the commitment to research excellence.

The Ontario research and development challenge fund is certainly an important first step to recover the lost ground I have spoken about, and that was announced this past year. But when you look across the country and you look south of the border and you say, "What else is needed?" there are huge gaps. In our brief we have provided several suggestions to you for your consideration. We think most important will be a developed, integrated research policy for the province. We need to close the gap on research and development funding with other jurisdictions with which we compete and, most importantly, create a leading jurisdiction here in Ontario.

Finally, we ask that you think about the adoption of the principle of maximizing federal funding by leveraging all existing and future research policies and in fact research programs to be able to regain share.

These actions are critical to ensure Ontario universities can compete with comparably publicly funded universities in North America and in attracting research funding and high-quality faculty.

Just a final comment before I turn back to the Chair: In the brief we have also included a number of sections on what I guess we could describe as new ways of doing

business. We have identified for you I think an impressive array, simple examples, illustrations of where universities in this province are forging new partnerships with industry, where indeed we are developing new relationships and collaborative relationships with colleges and other environments, and examples of the outstanding research that, despite our position in funding, continue today.

So we take this strategy forward. We think it's manageable, doable and, most importantly, absolutely necessary.

We would be happy to take questions.

The Chair: We have approximately five minutes per caucus, and we'll start with the government.

Mr Baird: Thank you very much for your presentation today. It certainly gives us a great deal to think about, as I have said previously.

One thing I took from your chart on education: That's what a 4.5% national unemployment rate will do for you. When economic growth picks up, there's a lot more money for the important things, and as our unemployment rate falls, I can think of no greater priority than investing in young people and in post-secondary education.

I wanted to ask the president of the University of Toronto, Mr Prichard, with respect to the income-contingent loan repayment plan, how much of the solution you think that could be, if the government could be there to ensure that a needy student has the money they need to go to school and is only required to pay it back on a sloped scale as they get income. Do you think that would be a significant part of the solution?

Mr Prichard: If I could make two comments: On your first observation, about the possibilities that a strong economy can create for the members of the community, of course we agree fully with that. The caution I would give you is the matter of cause and effect. I believe the evidence is overwhelming that the jurisdictions with the highest rates of growth of jobs and the lowest rates of unemployment are the ones that have invested most effectively in education, particularly in higher education.

We, like you, wish to get to that point of unemployment rates like 4.5% or lower. Our concern is our ability as a province to get there. As your Premier has said, to make this the best jurisdiction in North America in which to invest, every study known says investments in ideas, in innovation and in higher education are critical determinants of investment, and it's that investment that creates jobs and it's those jobs that reduce unemployment.

I don't think any jurisdiction can take as a strategy, "Once we've got our unemployment low, then we'll invest in research, ideas and education, in intellectual capital, in human capital." It has to be the other way around. In order to get the unemployment rate down, we have to make these investments as an investment in our future. That would just be a difference in interpretation, not a difference as to where we want to end up.

On the specific question of income contingency, I'd prefer, if you don't mind, asking my colleague Dr Davenport to speak to it, as he's not only the Ontario expert on student aid, he's also the chairman, at present, of the Association of Universities and Colleges of Canada and has lead responsibility on the student aid file and is dealing most directly with the government of Canada, as well as the government of Ontario, on our behalf.

Dr Davenport: Mr Baird, there's no question that the loan system is at the heart of accessibility. Yes indeed, we believe in a system that allows graduates to pay back their loans partly on the basis of their income after graduation. We have not been able to get good support from student groups for what I would call a pure ICR — a pure ICR being a system where the funds you don't pay back are accumulated and they bubble up and can accumulate to very large sums.

What we do have good agreement with our student groups on — and this is the position that COU would like you to adopt and indeed would like the federal government to adopt — is a system whereby each year, as the student pays back the loan, there is a kind of means testing and students who are in great difficulty can seek relief through interest relief or even debt reduction year after year after year, so that in that minority of cases that currently result in default — and I stress with you, it's a relatively low number for the universities — we can not force our students into default, let them pay back the loans, but give them a hand up.

Yes indeed, income contingency is the right idea. Let's structure it so we get everybody on board, including our student groups.

Mr David Caplan (Oriole): I have a couple of questions for the presenters. I'd just like to pursue the funding information first. Ontario and Canada, as we see there, have experienced a dramatic drop in the support for post-secondary education; the United States, as you've also indicated, a significant increase. Can you give some concrete examples of what that has meant to your universities, to higher education in the province, and how that has affected our competitiveness on the international scale?

Mr Prichard: I'll ask Dr Davenport to give some examples from the University of Western Ontario.

Dr Davenport: Let me be brief. In the last eight years, our full-time employment has fallen by over 22%. We've gone from 3,900 full-time employees to 3,100. What that has meant is that we're not able to hire new professors, we're not competitive in going out and getting the bright young women and men that we need to teach our classes. We're not getting the staffing that we need in a lot of our laboratories, the non-faculty members who provide so much value added to our students in so many areas of the university. We've kept our student numbers up, we've kept our graduating rates up, but we just don't have the people to deliver the quality that Professor Prichard described before. We want to give our students a publicly funded education that is second to none in the world. We've got to get this funding base corrected if we're going to do that.

Mr Caplan: With our leader, Dalton McGuinty, I've been chairing a forum on youth opportunities. We've been going across the province and listening to young people, your future students. They are saying that they don't think

they can afford to go to university, to go to college, to get the kind of training they're going to need. I understand that student aid and government support are a part of that, but so are the tuition costs. As I understand it, your position is that you'd like to see a deregulation of tuition fees. At the levels they are at right now, students have sticker shock. They're saying: "We can't even begin to want to go to university. It's just too prohibitive."

How do you reconcile the fact that you're looking at full deregulation of tuition and it can go up to any level, and yet students are saying even at the levels now they're finding that's prohibitive?

1150

Mr Prichard: The one certainty in this area is that the higher the public investment in our institutions, the lower will be tuition, and the lower our public investment, the higher will be tuition. The reason for this is again that it's not about the money, it's about what the money can do. You want for the people of your riding, as does Mr Phillips, as does Mr Kwinter, as does Mr Guzzo, as does every member of this committee, as do each of us as parents, we all want for our children an education which we believe will equip them to be successful citizens, successful family leaders, to have successful careers. It is simply not possible to do that in the North American context today without adequate resources. There are only two principal ways public universities get those resources. One is through tuition and the other is through public funding. In every jurisdiction on this map that I show you, this relationship between the two is clear and it is explicitly clear.

The best way, I believe, to take the pressure off tuition fee increases, the best way to keep tuition fees as low as possible is to make the necessary investments of public funding into our institutions. If that happens, the tuition fees — whether regulated or deregulated is not the issue — will be much more moderate. If we can't have the adequate investments of public funds there will continue to be significant tuition fee increases. Why? Because at the end of the day the most important consideration is not the height of the tuition fee but the quality of experience and training that student gets. That's the most important thing for the young people of Ontario and to that, all the universities and I believe all of you are equally committed. It's just a question of how we fund it. We want to see as much public funding as possible as the foundation, a foundation which is not adequate at present, and then, as necessary, build on that foundation.

Mr Tony Silipo (Dovercourt): Thanks very much for the presentation, particularly for focusing as you've done on these three points. There's obviously a lot more we could be talking about, but I appreciate your coming forward and saying, "If there's nothing else you do, these are the three key areas you need to address."

I want to start with part of the second but really come back to the first one primarily. In the graph you've given us that shows the shift between operating grants and tuition fees, are we getting to the point where if that trend continues, that accessibility becomes not just the ongoing concern it has been but a real barrier? In other words, will the higher level of tuition fees relative to what's happening with respect to provincial grants mean that more and more young people will not be able to go to college or university?

Mr Prichard: My answer to that is there are no absolutes in this. It's all a function of the quality of student aid, so we can't answer that question extracted from the context, which is why, as a council, we are absolutely committed to the principle that we must have in place student aid policies that ensure that every qualified student, every Ontario resident qualified to attend university or college, must be able to attend and complete the program regardless of the financial means available to her from personal resources. It's an absolute principle of social justice that we must be committed to. There can be no ambiguity on the commitment. How we do it — Dr Davenport has a number of suggestions.

We have been working to the limits of our abilities to press the government of Canada in its budget on February 24 to make a dramatic new investment in the future of young people. The day after that, we will urge the government of Ontario to reconcile its programs with whatever new investments are made federally and to get moving on this. Every one of our institutions is developing programs at the institutional level to strengthen our commitment to our students, because it's an absolutely essential principle of social justice, to which we're all — I know everybody in this room is committed to it. There's no absolute on the tuition level; the student aid issue is the real issue.

Mr Silipo: We heard from one student organization a couple of days ago. As you say, without getting into a lot of the details of it, there's at least a willingness to try to hammer out a way that could work.

I want to come back to the first point you made and put it into context. I will first of all say that I agree with what you're saying, that what needs to happen at this point in time is an investment by government. I agree very much with the point you made in response to Mr Baird, that that investment is one of the big factors in getting us that low unemployment rate eventually, not the other way around.

The point I wanted to put in front of you is that it seems to me that however the government may want to justify what they've done so far, they actually have not only a choice but an ability to do what you're asking them to do. The figures the government has shown us say that revenues, as they had projected them or as they had underestimated them — in our view purposefully, or otherwise — against the reality, is that there's a \$2.4-billion difference this year. There's likely, even by conservative estimates, at least a \$2-billion difference into the next budget year. So the room is there if the government is willing to take some of that money and say, "We need to, among other things, invest in education, both elementary and secondary and certainly post-secondary."

Dr Davenport: If I may, I want to agree not only that the room is there now, but the room is there in the long run. Last year there was a lead editorial in the Wall Street

Journal on the state of Illinois, a study done in the state that showed that for every dollar the state paid in public grants to the University of Illinois, every dollar in state appropriation, what we would call a government grant, the state got back over the lifetime of the student $4 in additional taxes because of the higher incomes. That's the kind of investment you need to make. That's what works in a knowledge-based economy. We can't afford not to make that investment.

Mr Prichard: The other side, the good news — and it is good news, because it's not easy to balance the budget in Ontario; it's not easy being the Minister of Finance in Ontario — is that our problem is one of the cheaper ones. To move Ontario's universities to the national average requires a new investment over a number of years, and it can be spread out over a number of years, of only $500 million.

This is not a $3-billion problem; this is not a problem beyond the reach of all of us. This is a problem absolutely manageable and solvable, of, in government terms, relatively modest cost. We've been modest in saying, "Don't try to do it all in one bite; try and do it in a series of two, three, four years of investment." This is in a very manageable category.

I understand Mr Eves and Mr Harris have said, "We will invest selectively in the most important items for the future of the province, and we won't wait until the year 2000 to invest." They invested two years ago; they invested last year. There's a budget this May. We hope you will unanimously urge the government to make yet another investment, in this case an investment in the future of the young people of Ontario, through public higher education.

The Chair: Thank you very much, Professor Prichard, Dr Davenport and Ms Patterson. We're out of time. We thank you for your time this morning and for your presentation.

Mr Prichard: Chairman, we're very grateful for your time.

The Chair: We'll recess until 1:30.

The committee recessed from 1159 to 1332.

ONTARIO MINING ASSOCIATION

The Chair: Our first presenter this afternoon is the Ontario Mining Association, Mr Patrick Reid, president, and Peter McBride, manager, communications. Gentlemen, welcome. Thank you for coming. Please proceed.

Mr Patrick Reid: Thank you, Mr Chairman. It's always a pleasure to be with you and to have some input into the budget-making process. I'd like to mention at the beginning that you will all be receiving an invitation to our annual "Meet the Miners" evening on the last Wednesday of April, the 29th, here in the Legislature, to meet members of the mining industry and to have a chance to chat one on one with the people who are creating and adding to the wealth of the province.

We're going to be relatively brief. We don't have a full laundry list of suggestions; we have four. I'm not going to read this verbatim. We've tried to make our presentation fairly easy to follow.

I will start by commenting that someone once said, "By balancing the budget, we can also avoid future tax increases. In fact, we can look forward to cutting taxes again down the road, even as we start paying down the debt." Our Treasurer also said, "Tax cuts do create jobs," and went on to say that there are four key economic challenges: reducing the burden of debt, keeping interest rates low to support jobs and growth, equipping young people for the future and building an innovative economy. The mining industry in Ontario can help meet all of these four key policy challenges.

Reducing the burden of debt: We are a wealth-creating industry. Annually, there's an estimated $6.6 billion in personal and corporate income tax in Ontario, roughly 106,000 jobs, and $1.5 billion in government revenues provided by the direct and spinoff contributions of Ontario's mining sector.

Keeping interest rates low to support jobs and growth: Annually, the value added in the mining industry is about $184,000 per employee, or almost twice the level for manufacturing as a whole.

Equipping young people for the future: Mining is a knowledge-based industry which supports higher education financially and in kind. There are some points listed: $15 million to York University, the Schulich School of Business; $5 million to the University of Toronto, the Lassonde program in geological and mining engineering; and $1.38 million to Laurentian University for a chair in mineral exploration. Ontario's mining industry invests $3,600 a year per person in training and safety per employee.

Building an innovative economy: Mining is one of the most advanced, knowledge-based, high-tech industries in Ontario and in the world, for that matter. This is an interesting statistic: More than 85% of the mining workforce uses advanced technology, computers etc. We can help build an innovative economy. We invest more than $40 million in pure scientific research and development. About 1,000 people, or 4% or 5% of the workforce, are employed in engineering and scientific research and development positions.

We support many of the government actions that have so far been taken.

Many of you are interested in the current state of the mining industry. You are no doubt aware of the recent press release of Inco in which they have announced that there will be some cutbacks to their workforce. Mining is a cyclical industry, largely dependent on the global economy. We have experienced, unfortunately, low nickel prices, down 34% from the 1995 average. Gold is down 22% from the 1995 average. Copper is down 42% from the 1995 average. I should probably say that you have our Ernst and Young report that we provide every two years. There's also a handout in there that shows the declining metal prices.

We're looking at a fairly tough 1998, but we believe the future outlook is promising for Ontario mining. Explo-

ration expenditures increased to $190 million in 1997 from around $120 million to $130 million the year before. This is the fourth straight year of increased exploration spending, mining claims held in good standing are at an all-time high and our safety performance continues to improve.

However, and here's where we will get to our recommendations, Ontario is perceived as a high-tax jurisdiction despite recent reductions. High-tax regimes, as we know, lead to brain drain, company relocations to lower tax jurisdictions and loss of investment due to global competition and better tax regimes.

There has been a spate of recent studies that have underlined this theme.

There's one by Behre Dolbear and Co from New York. This study indicates that of 13 jurisdictions examined, the largest government take was in Ontario, where taxes were almost twice the amount received by investors.

Discussion Paper on Proposed Amendments to the Northwest Territories Mining Royalty Regime compared five Canadian jurisdictions and showed that Ontario had the highest combined effective mining royalty and income tax rates.

In a paper from 1995 presented at the prospectors' and developers' conference, in a comparison of a mature mine in Nevada and Ontario, this study indicated that the effective tax rate on net profits was almost 50% in Ontario and about 25% in Nevada, about half as much.

1340

The recent Survey of Mining Companies Operating in Canada by the Fraser Institute, which was just released last fall, indicates that Ontario rates second behind the Northwest Territories in mineral potential. In other words, we still have vast potential for discovering and developing mines in Ontario. However, we rate sixth in policy potential between Alberta, New Brunswick, Nova Scotia, Manitoba and Quebec. This is largely based on the uncertainty around native land claims. However, we rate first in investment attractive index when you put all of these together.

I can assure you that the people who make the investment decisions in these companies are concerned about the high level of taxation in Ontario. I'm talking about all taxes: corporate, income, indirect taxes and what we refer to as non-profit-based taxes.

Our recommendations are fairly simple. Bill 26, which some of you will remember, provided financial assurance on mine closures. One of the financial instruments that would be available to the mining industry in Ontario was subsection 145(5) of the Mining Act providing for compliance with the corporate financial test in the prescribed manner usually referred to as self-assurance. Unfortunately, even though the act was passed a year and a half ago, no agreement has yet been reached on regulations or protocols surrounding this self-assurance.

We need to provide certainty to the government and to the mining companies by accepting this aspect of financial assurance for mine development and closure. It seems that the civil servants can't agree between the Ministry of Finance and the Ministry of Mines on how to resolve the impasse in making this self-assurance reality. We find it frustrating because we haven't been able to break a logjam and this holdup seems to be frustrating the will of the Legislature, which passed the act in the first place.

Another issue is the Ontario capital tax. I'm sure you're all aware of this. One of the aspects of this is that there is a capital tax in Ontario of about 0.03% which is payable on company revenue whether profitable or not.

We have a particular case that we've outlined here of a small junior mining company. That's one that doesn't have a producing mine and therefore doesn't have a cash flow coming in but is paying tax of almost $10,000, which is 10.5% of its total revenue, in fiscal 1997. This company is spending something like $3 million a year in exploration and providing salaries and wages and has to pay a capital tax of $10,000 that might or might not go to employ somebody else. This capital tax discourages investment in employment in the junior mining sector. We ask that this capital tax for companies in this area be reviewed.

We have some recommendation on hydro-electric costs in Ontario. We found that the freeze on Ontario Hydro average rates is helpful. However, Ontario Hydro remains uncompetitive, with the second-highest industrial electricity rates in Canada. Hydro's poor operating practices have been recently highlighted. We need to ensure the move towards a competitive market in electricity is not dominated by Ontario Hydro. High electricity rates, like high taxes, kill jobs and growth in Ontario.

Finally, the government has indicated in the past that when the budget was being balanced they would look at other tax decreases and reviews. We have indicated that the mining industry is perceived as a high-tax area and thus discourages investment and job creation. So we would like to recommend that you recommend a joint government-industry task force be created to examine all aspects of taxation relating to mining to ensure a competitive tax regime and enhance the industry's ability to contribute socially and economically to Ontario. That is our submission.

The Chair: We have approximately four minutes per caucus and I believe we'll start with the official opposition.

Mr Kwinter: I want to pick up on your comment about Ontario Hydro. I'm sure you know the white paper proposes that Hydro be split up — not privatized but opened up to competition. People, I gather from your remarks, are not satisfied that they are going to stay as an entity in the generation of electric power, that they're not going to break that up. They're going to open it to competition, but because of their sheer size that competition may be meaningless. The other problem is the stranded debt that is going to have to be factored into hydro rates or electricity rates. Have you taken a look at that and do you have any comments?

Mr Reid: Mr Kwinter, perhaps I could refer that to my colleague, Peter McBride, who spends a lot of time on energy matters. I just preface by saying that the largest industrial users of industrial electricity are mining compa-

nies, and when the rates went up in the 1990s by over 30% it cost a lot of people jobs and hurt our competitiveness, so we're vitally concerned.

Mr Kwinter: That's why I raised the question; I'm aware of that.

Mr Reid: I'll ask Mr McBride to respond.

Mr Peter McBride: The way we've looked at this, Hydro keeping all its generation intact isn't going to work. Lessons from other jurisdictions from around the world that have opened up electricity markets to competition have shown you need at least five players in the game to have a true market. If Ontario Hydro stays together as it is, as one generation unit, the interconnects with places like Michigan, Manitoba, Quebec, New York state aren't sufficient to introduce genuine competition into the market as it stands.

The stranded debt question: If we are moving to a competitive market, I think current efforts to predetermine what a stranded debt will be is the wrong way to go. You don't know if a debt's stranded unless the marketplace determines there's not enough revenue to service it. I think there's ample evidence that the Association of Major Power Consumers in Ontario has produced to show that hydro rates could decrease by at least 15% before any kind of impact would show up on stranded debt. If there is stranded debt, it is going to have to be handled and we've been looking at the transmission charge route, similar to a natural gas pipeline.

Mr Phillips: I'm trying to get a feel on the outlook for the industry over the next two to three years. I notice the expenditures over the last two or three years look like they've been going up what looks like not badly. I'm not sure how to measure that. Your financial numbers are only through 1995, but it looked like that was beginning to come along as well. You mention the drop in mineral prices being quite steep. We've had some people here talking about the Asian situation, which may drive prices down as well, even though I suspect not a lot of your Ontario material goes to Asia, that it's impacted by competitors that may have less demand in Asia coming back on customers of Ontario mines.

Could you give us a sense of what this committee should be thinking about in terms of the health of mining over the next two to three years in Ontario.

Mr Reid: I guess my feeling is that every time governments try to help, it doesn't help a lot. I think you have to —

Mr Phillips: I didn't say that. I said, what's the state of the industry?

Mr Reid: I think the state of the industry right now with the low metal prices is going to force a lot of consolidation. I'm an optimist. I think the prices are going to come back. We will be affected by the Asian flu because a lot of our metals and minerals are in fact sold to the Asian market; the bulk probably goes to the United States, but there is considerable. What you can do is really deal with the tax issue. While the exploration budgets are healthy — that means they're out there looking for new mines to develop in Ontario — if you look at Canadian companies' exploration expenditures abroad, companies that have exploration budgets of more than $4 million have spent about 70% of their exploration budgets overseas. There is a variety of reasons for that, that the geology is good and so on, but I can tell you from my personal surveys and what is said to me by the senior corporate people that the taxes in Ontario and Canada generally are a large reason why people are in South America or Asia or whatever exploring for minerals.

1350

Mr Martin: Under the section on Ontario capital tax, you use the example of junior mining companies. I was wondering how many of those there are around any more.

Mr Reid: There are quite a few. I don't have the numbers for Ontario. I have some numbers here that may not directly relate but can help answer, I think. Approximately $8.8 billion was raised from the Canadian equity markets in 1996, accounting for approximately half the global equity finance raised for mining ventures. In 1996 over 100 new mining companies, including foreign companies, were listed on the four Canadian exchanges. In total there are 1,400 mining companies listed on the various Canadian stock exchanges: Montreal, Vancouver, Alberta and Toronto. There are at least 1,400. There's some consolidation and some are not, let's face it, very healthy, but most are still alive.

Mr Martin: Flowing out of that I would ask you the question, because I think it's important as we look at what we're doing here, that some people are raising with me, and that's the question of consolidation, that many of the bigger mining companies own most of the significant operations, that when you talk about competition, you're in competition with yourselves where it concerns decisions about where you'll invest and where you won't invest. There are some further discussions that go on around there.

For example, some folks at Inco found $4.3 billion last year to buy the rights for the proposed $6-billion nickel mine in Voisey's Bay, Labrador, which is slated to be the world's richest low-cost nickel mine early in the next century. Inco is expanding its nickel mine on the South Pacific island of New Caledonia and also expanding its nickel property in Indonesia. Inco is now the world's largest private nickel producer.

They make the argument that where you talk about the need to compete and the high tax regime here in Ontario, which goes to support the communities in which the people who work in your operations live, in fact you're competing with yourselves. How would you respond to that?

Mr Reid: Inco, for instance, has about 25% of the nickel market at the moment worldwide. The Russians, out of Noril'sk, have a huge complex that produces a lot of nickel and they're still, as far as we can gather, not producing it at real cost. The Australians have a number of nickel mines. These mines are all over the world and companies are involved all over the world. To keep in the forefront of the industry, we have to be wherever the mines are found.

What we're exporting is Canadian expertise and technology. We are the leaders in mining technology in the world, and we have the best people, the best-trained, best-educated people. You go around the world anywhere and you will find Canadian and Ontario mining companies. I understand your point, but if it wasn't Inco that was developing, for instance, New Caledonia, it would be a competitor. It might be France, which has nickel interests in Asia, or anybody else.

The Chair: We'll move on to the government caucus.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. One of the questions I would like you to answer if you can is that you're talking about that 0.03% payable for the companies on capital tax.

Mr Reid: Yes.

Mr Rollins: What dollar amount would that amount to as revenue for the province of Ontario?

Mr Reid: I can't tell you that, I'm sorry. When we were taxing everything that moved and didn't move, this was one of those that somebody dreamed up and thought would be an easy hit. It's just another tax. I'm going on the micro here. This particular company raised the issue and we thought it was a pretty —

Mr Rollins: But to put us back into a competitive edge for the rest of the jurisdictions around, not only Canada but the world, we would have to lower taxes a significant amount as far as the mining company was concerned, would we not?

Mr Reid: When we're talking about lowering taxes, we're talking about a levelling of all taxes, not just the mining tax. One of the major problems that seems to be cropping up more and more is the income tax in Canada. Companies whose people have gone to the United States or somewhere else and then been brought back to Canada have been paid in American dollars if they've been in the States or somewhere else. They come back, and they find they have to pay these people at least 30% to 40% more in Canadian dollars to get them to come back to Canada, and some people won't come for that matter. One company that comes to mind, not out of Ontario, moved its head office from Vancouver to Washington state because of taxes.

Mr Baird: I'd just like to follow up on my colleague Mr Rollins and your answer. You mentioned the cumulative total impact of taxation. On page 17 of your document you mention the combined effect of mining royalty and income tax rates. Have the provincial income tax reductions helped growth in your industry and helped job creation, in your judgement?

Mr Reid: It puts more money in the hands of the consumers and the investors and it goes some way to doing it, but more has to be done in terms of the total tax take. What happened in the past few years was that we hit the wall in terms of personal income tax and corporate tax, particularly as applied to other jurisdictions, so governments collectively started doing non-profit taxes like unemployment insurance, workers' comp, all kinds of sales taxes and so on. There is apparently a level that you can't tax. You hit the wall on some taxes and then you start looking for other places to tax like this capital tax, for instance.

The Chair: I'm afraid we're out of time. We appreciate your submissions, and thank you for your time in attending.

Mr Reid: Thank you very much, Mr Chairman and committee members. Time flies when you're having a good time.

ONTARIO ASSOCIATION OF INTERVAL AND TRANSITION HOUSES

The Chair: Our second presenter this afternoon is the Ontario Association of Interval and Transition Houses, Ms Morrow. Good afternoon and welcome. You have 30 minutes. Please proceed.

Ms Eileen Morrow: My name is Eileen Morrow, and I'm the lobby coordinator for the Ontario Association of Interval and Transition Houses. Beside me is Karen Bible, who is vice-president of lobby for the board of directors of OAITH. Karen is going to read our presentation just to introduce you to our concerns, and then we'll answer questions and have a discussion if it's okay with you. Usually we talk so much we don't have time to answer questions, so we've tried to really make it brief today.

1400

Ms Karen Bible: Thank you and good afternoon. On behalf of OAITH, I'd like to thank the committee for this opportunity to once again come before you to talk about the needs of abused women and their children in Ontario and how they are affected by provincial budget decisions.

This is the third time we've appeared before the committee during this government session, so I won't take up the committee's time explaining the background of the association, except to say that we have been around for 20 years and currently represent 60 members, primarily first-stage emergency shelters for women escaping violence.

We'd like to address two main areas of concern for us today with regard to funding, policy and practice in the area of violence against women prevention strategy.

First, as you know, there have been a number of budgetary decisions made by the government of Ontario which we have repeatedly identified as harmful to abused women and their children. Among those we have found particularly troubling are the cuts to social assistance, legal aid and reductions in first- and second-stage shelter front-line program funding for abused women. The minister responsible for women's issues, for example, estimated in 1995 that the cut to first- and second-stage front-line programs was approximately $9 million. Program funding for second-stage shelters was completely eliminated. These targets for reduction, among other cuts, have influenced abused women to remain with or return to abusers, where they and their children will certainly face more, and often more severe, violence.

Subsequent to reduction and elimination of funding to programs in first- and second-stage shelters and other social supports critical to women's escape from violence, the government of Ontario has undertaken initiatives

designed to address some needs of abused women and has in fact increased funding in particular areas of response.

Primarily, most significant funding initiatives have focused on those responses which involve the police and courts, for example, free cell phones linked to 9-1-1, expansion of police victim service programs and crown victim/witness services as well as development and expansion of specialized spousal assault courts in a number of urban areas in Ontario. In many cases, urban centres receiving the expanded victim services have also been those chosen to receive the specialized courts.

Budget allocations to address violence against women by their intimate partners, therefore, have followed a discernible shift during the life of this government — a shift away from front-line community-based women's services and social program support and towards a police- and court-focused institutional approach to addressing violence against women. It is this shift we are concerned about today.

We are not suggesting that police and court victim services cannot be helpful to women. They arose out of a need for change identified by abused women and women's advocates who had experienced indifference and even revictimization at the hands of police, courts and in other institutional settings. Abused women and women's advocates demanded service support, however, as an addition to the community-based women's services most abused women prefer to use, not as an alternative to them.

We point out what we see as a funding shift in addressing violence against women, not because we oppose better police and court response, which is clearly needed, but because we feel compelled once again to emphasize that most abused women — 74% according to the Statistics Canada National Survey on Violence Against Women — do not call the police. Even fewer, therefore, are seen in criminal court.

While we continue to call for more support for women contacting police and court systems, we must also remind you not to forget the majority of women who find social supports and community-based programs such as shelter service their preferred avenue for addressing the violence in their lives. We must remind you that those women, because of cuts to social assistance, legal aid, community counselling programs and shelter services, are receiving less support today from their elected government than they were three years ago. This is totally unacceptable in a province where studies estimate that over 40 women each year will be murdered by a male partner and one in four women in a marital relationship will experience criminal violence from her male partner.

In short, we are asking that the government of Ontario begin to accept that violence against women by intimate partners requires not only a justice system response but also an equality rights and social development response. Budgetary and policy decisions that continue to narrow our response to one form of support for women will fail to provide the comprehensive and diverse network of supports abused women themselves have sought as their answer to this pervasive problem.

The second area we'd like to speak about today concerns the funding support currently left in place for community-based women's shelters, both first- and second-stage shelters. The downloading exercise currently underway with regard to provincial-municipal jurisdictions and funding responsibilities has preserved first-stage emergency shelter funding as a provincial responsibility. This is sometimes referred to by the Minister of Community and Social Services as full funding of shelters, in spite of the fact that all shelters still have to raise 20% of their funding for core services and 100% of their funding for other direct services shelters may provide for women and children.

The absorption of the municipal per diem funding by the province has so far been a positive initiative for abused women's shelters in our association, providing some level of stability for shelter budgeting. Stability of funding and the problems associated with fluctuating per diems have long been an issue for us. At the same time, the stability issue has been paralleled with two other chronic shelter funding problems: inadequacy of funding levels and discrepancy between communities as a result of municipal discretion on per diem levels and policies. These two problems remain.

Clearly adequacy is an issue when safe shelters for women are required to fund-raise for core crisis intervention services. Shelter programs have historically been underfunded and recent cuts have only increased pressures within shelters on staff and community volunteer boards to maintain service levels with reduced resources. Discrepancies in funding between communities in the province also remain as discretionary per diems are absorbed by the province, resulting in fluctuating service provisions depending on historical municipal support or lack of it for abused women in individual communities. This continuing lack of adequate and consistent funding is an unacceptable burden on hard-pressed and dedicated women's shelters struggling to assist women leaving abusive relationships.

Finally, we cannot close without once again challenging the decision of the province of Ontario to eliminate all program funding for second-stage shelters for abused women. These cost-effective and efficient programs have been decimated by that decision, but continue to struggle to provide some minimal support to women now that most of their programs are gone. They continue to seek a meeting and consultation with the Minister of Community and Social Services to plead for funding support. We must add our voices to their call for relief on behalf of the women and children in second-stage shelters who have made the decision to break free and start a new life. We ask that you add your voices to that call as well.

In closing, we'd like to recommend that this committee take a serious look at the implications of the narrow funding focus currently being taken in addressing violence against women in Ontario as well as the need for ensuring adequate funding for women's shelters and restoration of funding support for second-stage shelters in the province.

The Chair: Thank you very much. We have approximately 18 minutes for questions. We'll start with the New Democratic Party.

1410

Ms Marilyn Churley (Riverdale): Thank you, Mr Chair, for the opportunity to join your committee for a brief period of time today.

I thank you for your presentation. I want to start by asking you a little bit about the budget concerns that you've expressed to some extent in your presentation today. It seems as if you're saying that you're somewhat satisfied — and I must say I personally like what's happening with the courts, the dedicated court system. I believe what you're saying is that although there's never enough, of course, you're satisfied with what is happening on the justice side of things in that area, but that the difficulty is the cuts and other aspects for the women who never go to the police. For instance, the kinds of services that women who end up in second-stage housing need have been cut.

I just wanted to be really clear and have the committee really clear on that. I know when I raise it with the minister responsible for women's issues the response I often get back is, "We're putting more funding than any other government into women's programs," or whatever. It's very hard to get with her to the bottom of what's really going on, and I think it's important for us here in this committee to be really clear today about what is going on, what funding is adequate for now and that sort of thing and where you see the gap, so that we can make a recommendation to the government.

Ms Morrow: Although we're seeing some funding being directed to the programs, I think we're also seeing a shift. Funding has come out of programs and then funding is going back into other programs. I'm not sure if you do the math on the total new money that's going in, accommodating the cuts that have been made, whether I would agree that more money is going into an agenda to stop violence against women.

Although it's positive to see some of the expansion in some of the programs insofar as women find them helpful — and I'm not saying that's all that's required, for instance, within the justice system — I would also say that abused women are finding it extremely difficult right now when they attempt to leave abusive situations and I would assert that their number one problem is financial assistance.

In other words, because of the cuts to the social assistance rates and the difficulty therefore in finding affordable housing and child care and legal support and all the issues they're going to have to address when they make the attempt to leave an abusive situation, many women are finding that in fact they cannot leave. They get to the shelter and then their options are limited at this point. They have always been limited. I don't want to make the statement that things have always been great and now they're terrible. Things have not been good, and now they're much worse.

Women have found it difficult, for instance, because of cuts to adult education programs. When an abused woman is looking at the future to begin again, she's looking at attempting to start again to support her children alone — she knows that will probably be the case — to keep herself safe, to find affordable, safe, appropriate housing, to find secure, safe care for her children, and those things all cost money. The supports for her in that temporary period where she is leaving an abusive situation and then trying to set herself up in a new life require public community support, and those supports are not there to that extent.

The majority of women are not in a position where they are ready to call the police, or they fear what will happen in terms of the consequences of calling the police, and they are attempting to use other means. What I'm saying is that we have to support whatever means an abused woman feels will make her successful. She is the expert in terms of what will help her in that situation and what she needs to do to get away from that particular situation with the support of the community. Does that answer your question?

Ms Churley: Yes, it does. I can tell you categorically I've done the math, along with some help from a researcher, and in fact more money hasn't been spent but there has been some shifting. I think it's fair to say that this government is not going to, in the near future anyway, raise welfare rates. It's not going to happen, right?

Given what you just said and looking within the realities under which we exist — and I'd like to think that every party, regardless, would want to do something about this situation. When we're hearing that there are women who are victims of violence who are sometimes forced to go back to it and that there are gaps in the system which have been made even worse, where the gaps have widened, what practical things can you tell this committee today to bring back to the finance minister and the other ministers responsible that they can do? You can recommend till you're blue in the face that welfare rates be raised again; it's not going to happen right now.

For instance, second-stage housing programs being put in place: Would that help? Should there be designated funds — because this government has pulled right out of social housing, affordable housing — for not just shelters but housing for women who are victims of domestic abuse? What? Should there be special programs to deal with some of these problems?

The Chair: Sorry. You're going to have to answer in one word or less, because we're almost out of time.

Ms Morrow: For this party, you mean?

Ms Churley: Yes.

Ms Morrow: I think all those things would help. To make it really brief, if a woman can't move on successfully, with some sort of ease, and nothing is going to be done about those major problems, then the supports have to be in place to assist her and have someone assist her through what is a more difficult process now. Advocates do that.

The Chair: For the government, Mr Baird.

Mr Baird: Thank you very much for your presentation. It certainly gives us something to reflect on as we undertake our deliberations.

I did want to ask you about one issue. You raised it on page 4 and the top of page 5 of your submission. On page 4 you say, "The absorption of the municipal per diem funding by the province has so far been a positive initiative for abused women's shelters in our association, providing some level of stability." You then go on in two places to discuss discrepancies that pre-existed that measure. Could you tell me, is that a discrepancy in the urban-rural-suburban? Where could you say you most noticeably find those discrepancies?

Ms Morrow: Just off the top of my head, without having numbers in front of me, I would estimate it's probably more of a problem within the urban and northern communities, small communities with small municipal budgets. The municipal per diem was a discretionary per diem so that the local social services committee could decide to what extent, up to the maximum allowed by the province, that municipality was willing to pay in a per diem, and then the province would cost-share that 80-20. When the absorption took place, it took place pretty much on a dollar-for-dollar basis, so therefore the province now takes up that 20%, but if that 20% per diem was paid at $30 in community A, but at the maximum of $34.50 in community B, that discrepancy would still remain. A municipal government could decide, and some municipal governments have at some points in the past said, "We're not going to pay the per diem at all any more, because we can't afford it."

Mr Baird: So it's not just a geographic situation; it's also financial. In some areas it would be more or less than other areas?

Ms Morrow: Yes. If the local municipal government decided they couldn't afford the per diem up to the maximum, they would make a decision based on their local municipal budget on how much they would pay for the per diem, and then the province would cost-share that 80-20. As the absorption took place, those discrepancies would remain.

Mr Baird: That's just a discrepancy in the dollar amount, but as well in what they were provided in the first place.

Ms Morrow: The dollar amount will certainly affect the budget of the shelter and to what extent that shelter can provide the services women in the community identify that they need. As you know, in smaller communities it's often more difficult to fund-raise those extra dollars you need because the fund-raising base isn't as large. Although the community may be very supportive, there is a limit to how much they can expand the service to meet the woman's need.

Mr Baird: The second issue I want to ask you about: On pages 2 and 3 you discussed the difference between, for lack of a better word, justice issues and justice funding in this area, and then I think the other words you used are "social support" on the other side.

Ms Morrow: Right.

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Mr Baird: What do you think would be an appropriate balance between these? I've found constituents in my riding on both sides of the issue, some who have said to put more money on the enforcement and judicial side to ensure there are services for victims in the justice system, and then there are others who say that's not the best approach, that you should put it all on the other side. What do you think is the appropriate balance? There seems to be a consensus that you want a balance, that it's the level of balance.

Ms Morrow: Yes, you certainly do need a balance, because I wouldn't choose one over the other. However, I would start by looking at what abused women say, because the general public reacts negatively, of course, as they well should, towards violence against women and they rightly want some effective intervention to happen immediately. They often see that as crime intervention. That sounds likes a very obvious choice and one we would support. But abused women often see it as a much more comprehensive picture in terms of their lives, because they are experiencing the abuse and they are very aware of the experience of the abuse, not just as a criminal act or as a crime under the Criminal Code of Canada.

They experience it as psychologically damaging, they experience it as an impact on their children, they experience it as a financial impact on their lives. They feel the whole gamut of the tactics of abuse, not just the physical violence but the whole net of control tactics that come down over their lives. They begin then to start safety planning and strategizing how they can move out of that violence without consequences to themselves and their children and how they can move forward with their lives. Many abused women will say: "I'm not looking for revenge. I'm looking for accountability within the justice system and consequences and I'm looking for safety. The other thing I'm looking for is to take back my life and to be able move forward with strength and take care of my children and to prevent this from happening in their future."

Most abused women will say that in terms of community services as a whole, the most helpful are counselling and grass-roots women's services, where they feel they're going in a non-judgemental way, where they can tell their story, where they can get options without judgement, where they can get information they can use, because they are intelligent, they can analyse the information and correct inaccurate information to make a decision, and the decision might be, "I'd like to see the police and I'd like something done about this," and it might also be, "I'd like to see a lawyer, I'd like to see the housing registry advocate, I'd like to find out how I can feed my children until I can either get training or a job or some other way of moving forward with my life, so" —

The Chair: Thank you. I'm going to have to interrupt you there. Sorry.

Ms Morrow: See, we talk too much even when we don't want to.

Mr Baird: You're not the only one at this table who does that.

Ms Morrow: Does that answer your question?

Mr Baird: Yes, thank you.

The Chair: The Liberal Party.

Mr Phillips: I appreciate your being here and the service you provide for Ontario. We're trying to get clarity in our minds about the priorities. I'll try and articulate what I think you've said and then you tell me whether I've got it or not. You've indicated that in terms of abused women dealing with the justice system there's been an increase in priority there and that, while never perfect, is better. Then, to me, there are two other areas, rightly or wrongly.

There is the need for abused women to have a safe haven for a period of time. Then I suspect for most there is a need to move on from there — I guess all don't go into the safe haven anyway — to establish themselves in the community somewhere else. I'm just trying to get a sense of those two areas. I realize there's counselling and other things. On the shelters, which tend to be your focus, what would be the current situation? Of abused woman who are looking for a safe haven in Ontario, do 99% of them have an opportunity to go somewhere, or is there an acute shortage? Maybe when you're answering, because we might run out of time, you mentioned that you still need to raise 20% of your funding, I gather, in the community.

Ms Morrow: That's a requirement.

Mr Phillips: I'd like some sense, across Ontario, of are we in reasonably good shape in terms of available accommodation, and how difficult is it for the shelters to raise that 20%? Is it something that is holding us back dramatically or are most communities very supportive? All communities are supportive, but are most communities able to fund that?

Ms Morrow: I agree that most communities are very supportive, but right now we have a lot of competition for fund-raised dollars, a lot of needs in the community because of social program cutbacks on federal, provincial and municipal levels. It is harder now to raise the dollar, even though the support is there. As I said, in certain smaller communities it's much more difficult because the money just isn't there although the commitment may be. That is more difficult. Shelters are having to put more energy and time into fund-raising. I hope that's not taking any time away from more important issues within the direct service, but that is certainly something shelters are having to spend more time thinking about and working on.

In terms of women moving on and the availability of the service for them, again it often depends on the community. In some shelters, there is space in the shelter but what is really needed, especially in isolated communities, is transportation and outreach services. The shelter is not always in that woman's community and it may be very difficult to move the children out of their school down the road 75 miles to wherever the shelter is in a brand-new community. Outreach services would be very important and they're not always there so that women can access the shelter, even when there's a space.

In urban communities, particularly in the megacity at this point, it is very difficult for a woman to find a space in a shelter in the larger Toronto area, for example. Women from the Assaulted Women's Helpline will talk about the sinking feeling they get when women call and need space in a shelter, because they know that many times they're not going to be able to find that space the woman needs in the shelter, because the shelters in large urban areas, and particularly in Metro Toronto, are full all the time. In other words, more shelters would be necessary if women are not going to have the financial assistance and the housing stock, the affordable housing, available so that they can move quickly from the shelter into housing or move from their home into housing.

Mr Phillips: Is it a function of shelters not being able to raise their 20% contribution and the provincial money is available, is it that there's not enough provincial money available, or is it a function of something else such as that people are staying longer in shelters than you would like because you cannot find suitable accommodation for them in the community?

Ms Morrow: We're hearing that, that women in urban areas in particular are staying longer because it's more difficult to find them affordable housing, and it's taking longer to put in place the necessary supports women and children need as they're moving through the shelter. Where it may have taken two phone calls to get the appropriate service or a spot on the waiting list or a housing unit, it may be taking more phone calls. It's taking more time for each individual situation to be facilitated, and therefore it takes longer for women to get out of the shelter, and that means it's harder for women to get into the shelter. The system begins to back up because of the increasing difficulty in moving on.

The Chair: Ms Morrow, I'm going to have to interrupt you there. We're out of time, but I thank you for your attendance and for your presentation.

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ONTARIO CHIROPRACTIC ASSOCIATION

The Chair: Our next presenter is the Ontario Chiropractic Association, Mr Kempe, president.

Welcome, and thank you for coming. We have 30 minutes set aside to be used as you see fit. I wonder if you'd introduce your associates, please.

Dr Jan Kempe: My name is Dr Jan Kempe and I'm president of the Ontario Chiropractic Association. The association represents 86% of the some 2,000 chiropractors in the province of Ontario. Our mission statement is to enhance the health and wellbeing of the citizens of Ontario by promoting the art, science and philosophy of chiropractic.

We're governed by the Regulated Health Professions Act; the Workplace Safety and Insurance Act; the Insurance Act and statutory accident benefits schedule, also known as the auto insurance; the Healing Arts Radiation Protection Act; and the Insurance Act and Ontario health insurance plan.

Becoming a chiropractor in Ontario requires a minimum of seven years of post-secondary education: a university bachelor's degree and four years of training in a chiropractic undergraduate course. You'll find further background information in the written brief that we've submitted to you.

Since our time here today is short, allow me to move directly into why we have requested to appear before you, and that is simply this: The health care system is wasting millions of taxpayers' dollars every year, and thousands of Ontarians are suffering unnecessary pain because of it. To prove this point, we have commissioned yet another study which identifies how savings can be realized while increasing patients' access to chiropractic services. I said "yet another study," because governments to date have failed to listen to their own studies, which have come to the same conclusion.

To explain this further, I would now like to introduce who is with me here today. To my right is Dr Ione Puchalski. Next to her is Dr Cynthia Chan, who is a first-year practitioner. Next to Dr Chan is the government affairs consultant, Dr Robert Haig. I would also like to point out that we have a University of Ottawa health economist professor, Dr Pran Manga, who will be available for an in-depth briefing on his findings starting at 3 o'clock, following our appearance here, in room 230 upstairs. Dr Puchalski and Dr Chan will address the human and health care issues very briefly and then Dr Haig will be presenting the economic arguments we would like to bring forward today. I'll turn it over now to Ione.

Dr Ione Puchalski: My role this afternoon is to help us focus on the real reason we're here: the people of Ontario. In order to keep the people in the politics, I would like to use three examples to illustrate what is going on every day in chiropractic offices across Ontario — not unusual examples, but ones that are occurring daily.

For example, Lorraine, who could be your sister or your daughter, is 44 years old and has been suffering headaches for 15 years, six to seven days a week, week upon week. Several days most months she has to be hospitalized because of these migraines. Accordingly, she is depressed and has difficulty holding down a job. She has run the gamut of traditional medical evaluation, including CAT scans, MRIs, brain scans and X-rays, to no avail, including all of the medications and various interventions.

Recently, after her first chiropractic treatment, she reported 50% improvement, and within just a few more treatments reported no headaches at all, marked reductions in her sleep disorders and depression, increased activities and even a return to bowling, which she enjoyed. The tragedy is that 15 years ago, Lorraine was receiving chiropractic care. As the patient portion of the fees increased, she withdrew herself for "freer" services.

Another example is Paul, who is a 37-year-old single parent of two currently on disability because of chronic and recurrent severe low back pain, so severe that he frequently has to present himself to emergency for Demerol shots. The traditional medical approaches of physiotherapy and other medical interventions have not only proved ineffective but have very often aggravated the condition.

Recently, when he tried chiropractic, one or two treatments afforded him significant reduction in the problem, but even though the chiropractor had reduced fees for compassionate reasons, he removed himself from care, stating, "I know it would help me, I feel so much better afterwards, but I can't afford it."

Finally, I'd like to bring an example from my own practice, which was in small rural farming community. Like most chiropractors, I had reduced fees for geriatric and hardship cases. Whenever there were particularly difficult seasons in the farming where crops were literally rotting on the fields, you would find patients withdrawing themselves from care, admitting that they needed the care, they wanted to be there, but they were embarrassed by the fee reductions offered. Instead, they would wait until they received compensation from their crop insurance or compensation from the government of Ontario for their losses to render themselves to myself for my services for what they thought was a fair fee for services rendered.

I submit that the people of Ontario shouldn't have to choose their health care according to pride or the ability to pay for it.

Dr Kempe: I'd like to present now Dr Cynthia Chan to make her part of the presentation.

Dr Cynthia Chan: I was 15 years old when I was first inspired to pursue chiropractic as a career. I had studied dance at a high school with a performing arts program, and after a severe fall threatened an upcoming performance, I sought the care of a chiropractor who gave me my first chiropractic spinal adjustment. Needless to say, I was able to perform on stage two weeks later. I became intrigued with the chiropractic treatment: one that is natural, non-invasive, and yet in its simplicity can produce powerful healing effects in the human body.

After completing my pre-chiropractic studies in human biology at the University of Guelph, I began the four-year program at the Canadian Memorial Chiropractic College here in Toronto. In addition to my rotation at the school's walk-in clinic, I completed half of my fourth year clinical internship at the Anishnawbe native health centre, a health care centre designed specifically for the needs of aboriginal people. In 1997, the chiropractic college also started external clinics at Wellesley Hospital, the Donwood rehabilitation centre and the Muki Baum centre for disabled children.

As an intern, I had contact with many people who had turned to chiropractic as a last resort. Most were resigned to living with chronic pain for the rest of their lives without any hope. Many of them had been through several trials of drug therapy, shuttled from one specialist to another. Now that I am no longer an intern and have been a practising chiropractor in the town of Markham for one year, I see the same thing every day in my own clinic, but to a different degree.

It has been proven that emotional and physical stress of any kind can be imprinted in the human body. In some it's in the form of a stomach ulcer, in others it's felt as stiff-

ness in between the shoulder blades, and in others it's manifested as a headache. It appals me that so many of us have become detached from our own bodies. As I frequently say to my patients, most of us know how to take care of our cars more than we do ourselves.

I want my patients to understand when it's important to have surgery or to take medication, and above all the importance of preventative health care. However, understanding is not enough at this point. Chiropractic must become more accessible so patients realize that taking a pill is not the only option.

The bottom line is that chiropractic patients feel healthier. As a graduate of the class of 1997, I am witnessing the momentum of natural health care. As a governing body, you can help make this safe and effective form of health care a viable choice for more Ontarians and save Ontario taxpayers hundreds of millions of dollars, which can be better used for more effective purposes.

It is my duty as a practising doctor of chiropractic to provide the opportunity to as many people to improve their quality of life. Thank you.

Dr Kempe: Dr Haig will present you with the economic arguments and the results of our latest economic study.

Dr Robert Haig: I want to read a couple of statements to you that I think will probably sound familiar.

"We will provide the taxpayers of Ontario with better for less."

"We will root out waste."

"We will continue to make re-investments to give you the health care services you need."

"The ministry's vision...puts the needs of the patient first."

"A balanced budget."

"Improving...access to care."

"Provide access to the appropriate mix of health care professionals."

"Doing better for less."

Those are all quotes from either the Common Sense Revolution, the Ministry of Health business plan or Ontario's health goals. They all make sense. We agree with them. We think the government can in fact attain its objectives here. There is today new economic information about the treatment of back pain and neck pain and headaches that will help to achieve those goals.

Understand that the prevalence and the cost of those conditions is huge. Musculoskeletal disorders and injuries are the second and third most costly categories of health problems. They are the most prevalent chronic health problem. They are the most common cause of long-term disability. They are the most common reason for a visit to a health professional. They are the second most common reason for the use of drugs, of medication, prescription or non-prescription. This is a very large expenditure here.

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The cost in Ontario of treating and managing these patients is $3.4 billion in direct costs to the health care system and an additional $14.7 billion in indirect costs. Just the size of those numbers tells you there is the potential for savings here.

There are two points that I need to make with respect to those savings. The first one is that chiropractic treatment specifically addresses these conditions and has been consistently shown to do so in an effective and cost-effective manner. There are two separate Ontario government reports, the Manga report of 1993 and the Chiropractic Services Review Committee report of 1994, that found that and that recommended increasing access to chiropractic services. There is no question that patients are better off if they have access to chiropractic services. I can tell you with complete confidence that there is not an impartial body that will sit here and tell you otherwise.

The second point is this: Diminishing OHIP funding has meant that the copayment for chiropractic services is too high and is a substantial barrier to access. Chiropractic treatment has been partially paid for by OHIP since 1970, with the patients always paying a user fee. The patients used to pay 17% of that fee; they now pay 65% of the cost. Both of those Ontario studies identify that as a major and an inappropriate barrier to access.

Just as an aside, there's another twist to this financial barrier issue. Attached to the back of our brief you'll find a number of letters from physicians, from medical doctors, to the Minister of Health, urging better funding for chiropractic services so that they are able to refer patients when they need to.

What we haven't had to date and what's been missing is an understanding of how you can increase access without increasing overall health care costs. Everyone understands the fiscal realities of the 1990s. In fact, the economic analysis now shows that improving access to chiropractic services results in decreased overall health care costs.

The Ontario Chiropractic Association has presented the government with proposals that would increase the number of patients seeing chiropractors in Ontario from 10% of the population to 20%. It would double the number of patients going to chiropractors and it would have the effect of allowing them to see chiropractors sooner. Currently, 80% of people who go to chiropractors have had their condition for six months or longer. That obviously means that many of them will have already undergone expensive testing and consultation and treatment procedures that weren't successful, or they wouldn't be at the chiropractor's office.

The proposal involves restoring funding to 75% of the cost. This would require an additional $200 million annually. The increased access that is required comes from a reduction in the patient user fee.

This improved choice and access to chiropractic services, based on very conservative estimates, will save the taxpayers of Ontario more than $1 billion annually. That's made up of two things. It is made up of direct net savings to the Ontario health care system of between $180 million and $570 million. There would be additional indirect savings of between $1.3 billion and $3.8 billion. Those indirect savings are not things that are in your budget, but

are things for long-term disability and short-term disability that are paid directly by the taxpayers of the province or by the employers of the province.

Professor Pran Manga is a noted health economist from the University Of Ottawa. He was the principal investigator in the 1993 report commissioned by the Ministry of Health, which concluded that there were potential savings of "hundreds of millions of dollars annually" through the better use of chiropractic services. The findings in that report were later endorsed by the Chiropractic Services Review Committee report, which was a consensus report between the Ministry of Health and the chiropractic association. Dr Manga is a highly qualified, highly respected and experienced health economist. Because of this, the OCA asked Professor Manga to further investigate the specific nature of those savings and to quantify them. That he has done, and that's what is in the report in front of you with the green cover. As with his earlier report, the methodology and the conclusions are supported by his peers. The first endorsement for this most recent report — and understand this is a very new report — comes from Dr Philip Jacobs of the faculty of medicine of the University of Alberta.

This is a very thorough and detailed document and it's one that requires more than a few minutes' explanation to understand it thoroughly. This is why, as Dr Kempe has indicated, we have arranged for a full briefing later on. But if I could, I would ask you to turn to the executive summary of that, which is the second page in. I'm not going to read the whole thing to you, but there are a few points I want to make.

His first point speaks to the deterrent effect of existing copayments and the fact that because of that, patients are steered away from chiropractic care towards other management which is "free."

His second and third points basically reiterate the OCA's proposal, which I've said to you.

His fourth point is the summary of savings: "Expenditures to improve access to chiropractic services and the changed utilization patterns it produces will lead to very substantial net savings." You will see here he's talking about direct savings in the range of $380 million to $770 million and indirect savings that follow there.

His fifth point sets out the rationale and the reasons why such substantial savings can accrue.

Look, if you would, at the top of page 2, point (d): "The poor and lower-middle-income groups and the elderly are low users of chiropractic mainly due to the deterrent effect of the high copayments or user fees. Yet the prevalence of neuromusculoskeletal conditions is highest among these socio-economic groups."

Just to finish, I am going to ask you to look at the very bottom, his twelfth point: "Significant reductions of health care costs, improved health outcomes and equitable access to services are all important objectives for the Ontario health care system. Any one would be sufficient reason for the proposed reform in funding for chiropractic services. The fact that this reform meets all three objectives makes the case both urgent and compelling."

Dr Kempe: Mr Chairman, we've attempted to demonstrate that this government can attain its budget projections, it can help change the way that health services are delivered in this province and it can do better for less.

The literature on costing of medical and chiropractic management of pain syndromes demonstrates that payments to chiropractors for their services constitutes about 80% of the cost per episode. In the case of medical management, the payments to medical doctors is only approximately 23% of the cost per episode. In other words, chiropractors don't generate additional costs.

Mr Chairman, that's our presentation. Dr Manga's complete economic document is being provided to you and we are now available for any questions you may have.

The Chair: Thank you very much, Mr Kempe. We have about three minutes per caucus. We will start with the government caucus.

Mr Arnott: I just want to thank you ladies and gentlemen for your outstanding presentation and the effort you put into this. The timing of Professor Manga's report is very helpful for us too. Certainly the projected savings are very, very impressive, anywhere from $380 million at minimum, upwards to three quarters of a billion dollars, something the government must thoroughly assess. I'm certain that the Ministry of Finance officials will be very interested in your report, so I want to thank you very much. I don't think I have any questions.

Mr Rollins: Thank you for the report. I think you've done an excellent job and have shown to us ways that we can make — how do we get the patient to you first to make that saving happen? If we said, "Okay, fine, we're going to bring you into the loop," how can we get you there to make sure that we haven't wasted the six months, haven't wasted all the drugs and all that on those patients? How do we get them there first?

Dr Kempe: That's pretty simple. There's a massive disincentive for the patient to come to us first now, and that's financial. Put yourself in the shoes of the patient. If you right now had acute lower back pain and a screaming sciatica down your leg and you were told it was going to cost you somewhere between $75 and $100 to see me today and another $200 by the time you were done, you'd probably want to try something else first that's "free." That's certainly what we perceive to be, and my understanding is that that's what Dr Manga perceives to be, the major cause for us coming second.

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Mr Douglas B. Ford (Etobicoke-Humber): Does chiropractic treatment have any effect on sight, hearing or taste? We're talking physically here in different categories.

Dr Haig: When you look at the Ontario health survey data, they tell you that 96% of chiropractic practice is for musculoskeletal things, which is almost all of that. That's where the focus of what we're presenting today is. That's the vast majority.

Mr Ford: I understand that. I just wondered if there was any research on sight, hearing or taste for your treatment.

Dr Haig: I don't know what the research is on that, quite frankly.

Mr Kwinter: Thank you very much. I was very impressed with your presentation. I think you've made the economic case. I understand that you're in negotiations with the Ministry of Health to see if you can get them to see the economies in getting involved in funding chiropractic. Has there been any response to your appeal? What is their position?

Dr Kempe: I had occasion to meet with the government's negotiators this afternoon, as a matter of fact, just before I came here. Certainly the negotiators have no trouble with the concept of doing for less. They do have some trouble with the concept of better. The chief negotiator told me today that the ministry refuses to accept any premise of savings at all, while acknowledging that he hasn't even read the ministry's own reports and their own studies. My retort would be that if they refuse to accept our evidence of savings, perhaps you or some other member of this committee might demand that they submit whatever evidence they have that it doesn't result in savings.

Mr Phillips: To follow up on that, is the process that you negotiate directly with the Ministry of Health or are you part of the total pot, if you will, that they negotiate with the professions? I'm thinking now of the medical doctors and yourselves. Is that all part of one package, or do they negotiate independently with you?

Dr Kempe: No, the medical doctors have completed their negotiations with the government. We negotiate on our own with government-appointed negotiators, attended by some members of the civil service. We don't negotiate directly with the minister, no.

Mr Phillips: I guess what you're saying is that for one profession, the medical doctors, essentially their fees are basically covered almost in totality, and for your organization, over the last several years it has slowly been changed to where an increasing portion is paid for by the patient.

Dr Kempe: That's right.

Mr Phillips: Do you know whether the medical doctors are required to provide the same kind of proof of cost benefit as you've provided here?

Dr Kempe: I'm not aware that the medical doctors have ever been required to demonstrate cost effectiveness or clinical effectiveness, no. As I say, they've finished their negotiations. I'm not aware of any "necessary" service that's not fully funded by OHIP, and you alluded to that in the first part of your question. Certainly our services are about 25% to 33% covered by OHIP and the rest is borne by the patient.

Mr Phillips: What is the rationale for — where you say, "Listen, if we can prove that it saves you money, why won't you look at it?" how would they respond to that?

Dr Haig: The government negotiators that we're dealing with are focused on the short-term fiscal goals that they have in front of them. It's fair to say that they are not looking at the broader picture. It is a problem that funding is in little silos and is not integrated the way it should be. Somebody needs to take a look at the broader issue of where a proposal like this would fit in.

Mr Martin: I want to follow up a little bit further on that line of questioning. It seems to me that we've been down this road quite a distance. I was on the committee that did the work around the regulated health professions. You folks were there and made your case and we recognized for the first time that what you do is legitimate and all of that. You've come before us with study after study, making the same case you make today. We just don't seem to be able to get anywhere. I just wanted to comment on your better for less actually being more the "less" part than the "better" part that the government seems to be interested in. I would certainly, from my experience — two and a half years with this government — agree with that in a very strong way.

There's obviously something else going on here that's blocking your coming on board and being recognized and seen and the government taking advantage of what it is that you have to offer. Is it just the bureaucrats and their not reading your material or their inability to see beyond what they've always seen beyond, to break open the parameters, or is there something else?

Dr Kempe: I'm certainly not aware of what any government official, whether it be a civil servant or in the ministry, is thinking. It baffles me. I've been down this road for 32 years. I had hair when I started this job. It's a really tough question. I don't know what the problem is. I perceive the problem to be largely one of money. If there's more to it than that, nobody has told me that.

Dr Pran Manga: Certainly in the past we've been able to demonstrate that greater access to chiropractic services would improve the health of the Ontario population. We've also been able to demonstrate there will be equitable access, because there's no doubt about that and I'm sure everyone here believes that. But I believe this is the first time we've been able to demonstrate that you'll also save money, both through direct health care costs and of course very massively through the indirect costs of illness and disability.

While we have been down this road before, I don't think we've had the kind of evidence you are now seeing, some literally for the first time in Canada. So in a sense, yes, we've been down this road before but not in the kind of detail and not as convincingly as we are putting it forward to you today.

The Chair: Thank you very much. I'm going to have to interject at this point. Thank you for your presentation and for your time, and acknowledge that in room 230 the discussion will continue.

That concludes the presentations for today. We are adjourned until 9:30 am tomorrow in this room.

The committee adjourned at 1458.

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Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

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STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Friday 13 February 1998

Vendredi 13 février 1998

The committee met at 0930 in room 151.

PRE-BUDGET CONSULTATIONS

HUGH MACKENZIE

The Chair (Mr Garry J. Guzzo): Welcome back for Friday. Our first presenter this morning is Mr Hugh Mackenzie, the research director of the United Steelworkers of America. Mr Mackenzie, thank you for coming. Welcome. You have an hour to use as you see fit. Please feel free to commence.

Mr Hugh Mackenzie: Thank you to the committee for the invitation. I should start by clarifying my affiliation. I am the research director of the Steelworkers, but I'm appearing in front of the committee on a personal basis. I guess I'm invited as a so-called expert witness. What I'm saying here is not the official position of the Steelworkers, it's the results of analysis that I've done in conjunction with some colleagues. I'd be surprised if the Steelworkers disagree with what I say, but it hasn't been vetted through any official channels.

In the invitation, the clerk asked that I try to keep it to half an hour so that there's lots of time for questions, and I'm going to do my best to do that. Let me just get started.

I decided this year to take the opportunity presented by the fact that we're almost exactly halfway through the five-year term of office that the government was elected to in June 1995 to take both a retrospective and a prospective look at how the government is doing with respect to three of the key commitments that it made during the election campaign and to look at the interactions among those things.

The three elements of the focus are the promise to have a balanced budget by fiscal year 2000-01, the 30% income tax cut and the creation of 725,000 jobs in the next five years. The real focus of the analysis that I'm going to take you through today is the income tax cut. I take that as the focus for three reasons.

First, there's a clear and obvious interaction between the income tax cut and the promise to balance the budget. It's relatively simple arithmetic that if you make a substantial cut in taxes while the government is running a deficit, it's going to make it that much more difficult to balance the budget.

The second thing is that the tax cut leads a double life in the government's characterization of its own performance. It's not only the government's signal political promise in and of itself, but as the minister says over and over again, including in his presentation to the committee on Monday, the tax cut is also the government's job creation program.

Third, and this is a theme I'm sure a number of people come back to, is that the tax cut is also critical because, as the government has strayed from the areas that it emphasized in the Common Sense Revolution into other areas that were not contemplated for government action, it's quite clear when you look at what has been happening that most of those forays into areas, some of them quite controversial, that weren't contemplated when the Common Sense Revolution was drafted, are driven by the need created by the tax cut to balance a substantial drop in provincial fiscal capacity with the need to balance the budget.

This presentation looks at the tax cut from several respects. First, it looks at how the tax cut affects the fiscal options open to government in 1998. Second, it looks at the impact of the tax cut longer-term on Ontario's fiscal position. Third, it looks at the implications of the tax cut for a growing public services gap in Ontario. Finally, it looks at the relationship between the tax cut and the government's promise to create 725,000 jobs over a five-year period. It also looks in some detail at a couple of pieces of the municipal finance puzzle that the minister announced last week, which, while they haven't received a lot of public attention or analysis, partly because there hasn't been a lot of information made public about it, will have an enormous impact on the taxes paid by many, many property taxpayers in the province.

I want to talk first about the impact of the tax cut on fiscal options. For this part of the analysis I've put together a model of Ontario's fiscal structure, the expenditure patterns and the tax patterns, and set the model up so that it's possible to project what's going to happen to the budget deficit revenues over the next three or four years to see how the likely path of Ontario's finances, as measured by progress on the deficit, is going to play out. The model is structured so that it's possible to change assumptions about the economic environment and about the government's fiscal strategy to see how those kinds of changes might affect the fiscal balance at the end of the day.

Like most models that do this kind of sensitivity analysis, it has to start with a base case, because that's what you use as the sort of fulcrum for the comparative analysis. The base case that I've used here for this analysis is essentially what we know about the current situation as it has been published in the material that the minister released as recently as last week, including the rundown of the current numbers on spending and tax revenue; second, rates of economic growth projected for Ontario for the next two or three years that are being used by the Ministry of Finance for its analysis; interest rates based on the Ministry of Finance's best guess of what Ontario's long-term borrowing costs are going to be off into the future; then on the crucial spending side, which is actually the most difficult one to put a finger on — because of the wonders of accrual accounting and the extent to which the budget is now riddled with expenditure initiatives that are described as temporary or transitional, it's kind of difficult to figure out what the spending base might be — for the base case what I've assumed is that the 1997-98 spending level will stay the same and that the $1.5 billion in temporary funding for restructuring will go away.

0940

That latter assumption may be heroic, because of the political role that the restructuring funds play for the government, in particular the several hundred million that's going into the municipal sector to deal with the problems created by municipal finance restructuring. That assumption may be a bit shaky. On the other hand, we don't really know at this point where the main spending line number is. But in any case, this provides a basis for an analysis.

In the base case, the government meets its target of balancing the budget by the year 2000-01. In fact, there's a surplus of about $1.6 billion in that year. That scenario does not require any further cuts in public spending. But, as I noted, it also assumes that the municipal restructuring money will actually be temporary, which, given the political environment, may be a difficult one for the government to make stick in the long term.

I also looked at a better case. In the better case — and I put "better" in quotes in the paper because it's better from the perspective of the fiscal balance of the government; it's not clear whether it will be better for Ontario to make some of the spending decisions that are implied in this, but it's better, certainly, from a fiscal balance perspective — I assume that growth runs half a per cent higher than projected. That essentially stands for an assumption that the United States economy doesn't slow down at all and that the fallout from the meltdown in Asia is relatively short-lived and limited.

On the spending side, which is the other key variable here, I have made a sort of hybrid assumption that the government's internal long-term estimate that they're working on at the moment of about $42.9 billion is what they're able to stick to, but I also assume that they're not able to get out of the temporary transitional arrangements. So it's not the absolutely most stringent spending regime one could imagine, but it's certainly tighter than the one in the base case. In this case, the budget is balanced a year earlier than in the base case; the budget comes into balance in 1999-2000.

I've also looked at what I call a worst case. That's a scenario that goes with a slowdown in growth in the United States and perhaps a more persistent negative impact on the Canadian economy from the change in Asia. It is not, I want to stress, a recession scenario; we still have significant positive growth in this scenario. On the spending side, it assumes that spending is not reduced from its current level, that it stays where it is. In this scenario, even by the year 2001-02, the budget doesn't balance.

Having set this up, we look at what the impact of the tax cut promise is on Ontario's short-term fiscal options. I looked at a number of scenarios. One says, let's assume the worst case happens and we just don't proceed with any further instalments in the tax cut; in other words, that the instalment of the tax cut that is on schedule to happen January 1, 1998, and the other one that is scheduled to happen January 1, 1999, don't happen. Then it looks at what happens to our so-called base case if we do that. What happens there is that the budget balances in 1998-99 with a surplus of over $2 billion.

The third one is similar to that, looking at what would happen if the government had never cut spending and never put the tax cut in place; in other words, we didn't go through the haemorrhage exercise that started in 1995-96 and we didn't have a tax cut. That generates a surplus of $1.5 billion in fiscal year 1999-2000. If the government had done nothing to the basic fiscal structure, if it had simply kept spending at its 1995-96 level and not actively diminished Ontario's fiscal capacity, we would be a year away from a balanced budget right now.

In summary, the implications of this analysis of the sensitivity of Ontario's budget position are, first, if you compare this with what's happening in the federal context, and using lingo that wasn't present at the time, wasn't part of the debate at the time these decisions were made, the Ontario government has chosen to spend the fiscal dividend in advance. There is a fiscal dividend that's generated by growth in revenue in any fiscal system that has taxes that are linked to the performance of the economy and we spent that in advance. That decision has driven the government to adopt an unnecessarily harsh fiscal strategy, forced it to go far beyond the scope of the original Common Sense Revolution to extract revenue from transfer payment partners and it has created substantial additional debt that's attributable to the tax cut itself, and I'm going to come to that in a second; second, the next two instalments of the tax cut play a significant role in limiting Ontario's ability to deal with contingencies; the third is obvious in anything that looks at Ontario, that Ontario's fiscal position is heavily dependent on what happens in the United States.

Let me turn now to the longer-term implications of the tax cut. The numbers here all come out of the same analysis. In particular, the numbers on how the debt has accumulated with respect to the tax cut that I'm going to put in

front of you now come out of the base case I've described using the Ministry of Finance's — actually I'm old enough that I still think of them as treasury — economic growth projections and the best guess I've described about what happens to public spending in the province.

What it shows is that by the end of the year 2001-02, Ontario's debt will have increased by $32.4 billion to pay for the tax cut. What's remarkable about this is that it takes place at a time when the Ontario economy is growing. The tax cut causes nearly as much to be added to Ontario's debt as was caused by the economic collapse in the early 1990s. Another way of looking at it is that implementing the tax cut in the face of the deficit will have increased the debt by 30% compared with what it was when the government took office.

By the end of the year 2001-02, the carrying costs of the debt — that's the interest paid on the debt accumulated to pay for the tax cut — will be $2 billion a year. That's the interest cost on carrying the debt attributable to the tax cut. By the end of the year 2001-02 in the base case projection, 3.3 cents of every dollar raised by the provincial government will go to service the debt accumulated to pay for the tax cut.

0950

The next thing I want to look at is the public services gap. I'm going to run over this quickly because I don't want to run out of time for the last piece of this. Essentially what we conclude here is that if you look for a measure of the quantity of public service available to people — sometimes it's kind of hard to come up with these numbers because some public services are hard to measure, but just using what we have — real per capita spending strikes me as a reasonable way of looking at the general level of public services. It probably understates the pressure on public services because of the aging population and its impact on the need for public services, but it's a reasonable approximation.

What the analysis shows, compared with the base case I developed, is that by the last fiscal year of this term of office of the government, the services gap, the gap between the 1995-96 spending level in real per capita terms and what will actually be spent in that year, will be $11.8 billion or about 20%. If you think about it in real per capita terms, one thing in five that the Ontario government did in providing public services for the people of Ontario will be gone, and to link it back to the tax cut, half of that gap, $6.4 billion of that gap, is attributable to the tax cut.

There's a bit longer analysis in here about the impact of the tax cut on employment creation. Just a couple of quick things. One is that I'm not going to suggest the Ontario economy isn't creating jobs at the moment. It's clear from the numbers that we're finally moving into a job creation phase in Ontario. I note in passing that while this performance is positive, it's running significantly behind the extravagant promises the government made during the election campaign in 1995-96. The gap between the trend line and performance to date is about 80,000 jobs.

You also need to put this economic recovery in Ontario into perspective. Between 1995 and 1997 employment in Ontario grew by about 180,000. In the corresponding period in the recovery in the 1980s, between 1985 and 1987, employment grew by 343,000. So in the 1990s the recovery is a 3.5% improvement in employment; in the 1980s recovery in employment was at 7.4%.

But the most important point I want to make here is about the assertion that this economic recovery has something to do with the tax cut. If you look at what has happened in the Ontario economy tending towards the late 1990s, what jumps out at you is that this is an export-led recovery. In fact, it's more than export led; if you look at the numbers, it's a recovery that consists of a recovery in exports. If you look at the numbers the ministry itself has released about Ontario's economic performance, referencing to June 1995, Ontario's real gross domestic product measured in 1992 dollars grew by about $29 billion over that period. Exports grew by $33 billion. This suggests really strongly that the difference between Ontario's economic performance and that of the rest of Canada is due to export performance, and that the job creation activity that's taking place in Ontario at the moment is the result of this export boom.

When you recognize that what's going on in the Ontario economy is largely driven by exports, it seems to me that puts the argument that the tax cut has something to do with it into some considerable jeopardy. First, as an economist I don't know of any mechanism that links the purchasing habits of Americans or Japanese or Europeans to the tax cut in Ontario. That's what attributing an export boom to the tax cut would require. Second, one could look at the export boom and ask the question: "What's the likely cause of this? What are the likely factors that are going to influence this?" I would submit that on a list that includes continued, unprecedented employment growth and economic growth in the United States, and which has a clear and obvious direct impact on Ontario's export performance and the declining value of the Canadian dollar, which again has a clear and obvious direct impact on Ontario's export performance, it would be hard to place the impact of Ontario's income tax cut on that list.

I want to shift gears a little bit. The last thing I want to talk about has to do with the changes in local government finance that were announced last week. You'll be pleased to know I'm not going to talk about the decision not to follow through on the promise to have a uniform commercial and industrial tax rate for education. There has been a lot said about that. I may have other opportunities to do so, so I won't dwell on it here. But I want to focus on three things that may have missed a little bit of public attention here.

One thing, and this is the only thing I'm going to say about the decision not to go with the uniform rate, is that the government is freezing commercial and industrial property taxes at their current level as separate classes of property, not as a combined business class. That means the overtaxation of industrial property in Ontario relative to commercial property is going to be frozen in time in

that policy. For a society that's concerned about the impact of policies on the goods-producing sector, the export-generating sector, that strikes me as an interesting decision to have made; by default, mind you, but an interesting decision to have made.

Second, not given a lot of attention in this change is that, along with all the other changes that are taking place in the local government finance sector, whether the rates are frozen or not, the business occupancy tax is gone. For those of you who haven't immersed yourselves in the arcane details of the business occupancy tax, let me just say that the business occupancy tax is basically a surtax on the commercial and industrial property taxes, and it's on a graduated scale, depending on the type of business.

For example, banks, insurance companies, chain stores, breweries and distilleries pay a business occupancy tax of 75% of their basic property tax on their property, manufacturing businesses pay 60% and small business pays 30%. The average rate across the province is 45%. So when you eliminate the business occupancy tax and fold it back into the commercial-industrial tax, that 45% gets picked up by everybody. If you're a bank, you're going from a tax that's effectively 175% of their basic tax to one that's 145%. That's a 17% reduction in tax. If you're a small business, you're going from 130% to 145%. That's an increase of 12%. Because this change is embedded in the whole approach to commercial-industrial property taxation now, it applies to the whole tax bill, not just the provincial portion; it also applies to the municipal tax bill. So this is an incremental impact on the whole commercial-industrial tax bill paid by commercial and industrial property taxpayers.

1000

The third thing I want to touch on — I'm actually coming close to hitting my time here — and this is a real detail that I'm afraid you have to have a bit of a pointy head to notice: One of the little announcements that was made last week was the announcement of the bands within which the provincial government is going to permit municipalities to vary tax rates on commercial-industrial property and multiple-unit residential property relative to the tax rates that are charged on single-family residences and small apartment buildings. The bands they've announced say that the tax rates on these types of property can't be any wider than 90% on the low end, 110% on the top end of the tax rates on single-family residential property.

This sounds pretty bland and boring, because it sounds pretty technocratic, but what it means is that over time, municipalities are going to be required to drop their commercial and industrial taxes and their taxes on multiple-unit properties, their taxes on large landlords, down to no more than 10% above the single-family residential rate.

Because of the way the assessment system has operated in Ontario over the last 50 years or so, that is going to require effective rates of tax to be dropped dramatically on those properties throughout the province. You can think about it this way: You've got quite high effective rates of tax on multiple-unit residential property and commercial and industrial property; your municipalities are going to be forced to drive that effective tax rate down over time to no more than 10% above the rate of tax on single-family residential property. To raise the same amount of money to pay for public services, they're going to have to increase taxes; they're going to have to increase the general level of taxation, so in effect, the tax burden will be shifted from large landlords and the commercial-industrial sector on to single-family residences and small apartment buildings.

The extent of this shift can only be determined by looking at data for every municipality in the province. The most recent data I have is for 1996. That's the most recent set of data that has been made available by the provincial government. The data show that this shift down to the top of the band will produce a tax increase on the single-family and small multiple sector of about $1.4 billion — that's an increase of 24% — from this requirement alone. Large landlords will see a tax reduction of about $275 million and commercial-industrial property would see a reduction of about $1.1 billion, about a 19% reduction. So we're talking about a huge shift in the financial structure of local government and a huge shift in effect in the distribution of taxes in the provincial finance system as a whole because these are large numbers.

As the government is learning, perhaps to its sadness, the municipal sector is pretty diverse so the impact of what looks like fairly simple, easy-to-understand, straightforward changes at the provincial level varies enormously across the province, just enormously.

In this case the general conclusion that you come to is that in large urban areas, with the exception of the GTA area immediately around Metro, around the city, there's a significant shift. We're talking about, for example, in the new city of Toronto a single residence's taxes would be driven up in total — the total tax paid by single residences — by about 48% over time. In urban eastern Ontario we're talking about 25%; 24% in urban southwestern Ontario; about 25% in urban northern Ontario. In rural areas and in the GTA outside Metro the increases forced by this compression would be in the range of 5% to 14%.

When you take this together with the change mandated by Bill 160 that requires a single rate of residential taxation across the province, put those two changes together, you get a tax increase on single residences and small multiple-unit buildings of a little over $1.5 billion, based on 1996 numbers.

The analysis doesn't take into account the impact on municipal budgets of the download and it also does not take into account, because it can't, the disruptive impact on relative tax burdens within property classes within municipalities that are going to be created by the move to market value assessment.

In this world of perhaps unexpected political disasters, starting with the business occupancy tax and then moving to the uniform commercial and industrial tax, this one's a sleeper. If you talk to the people in the assessment division of the Ministry of Finance, which I guess is now a crown corporation, but if you talk to the people who do assessment in the province, they're quite happy to give you

broad statistics about market value reassessment only really being an issue in Toronto and every place else the changes are pretty modest because assessments have been kept pretty much up to date. Don't believe them.

Many of the reassessments that are on the books as "reassessed property" were done in the late 1970s. Those assessments are now as far out of date today as Toronto's assessment was in 1969, when the province took over the assessment function. As a group of politicians you can expect a lot of agitation because there is going to be a lot of movement shifting in tax burdens within property classes within municipalities in Ontario, some of it driven by the amalgamations that have taken place but much of it driven by the fact that although the average is — one of the things you learn when you look at the municipal sector is, don't believe averages. The system is so diverse — the former Minister of Education is nodding his head — that there is nothing you can do in the municipal sector that will not have some completely unexpected result because the system is so varied.

1010

That's the thing I find most troubling about this tax-cut-driven foray into municipal finance reform. It appears the government has gotten into a lot of these things and has made commitments to do a lot of things without fully appreciating the impact of the decisions it is making. Sometimes when it sees those impacts, it changes its mind, it realizes it doesn't like the consequences of the simple-sounding solution that it originally announced, and sometimes it proceeds.

When one looks at the relationship between those things that have been proceeded with and those things that aren't proceeded with, the conclusion one is driven to is that these exercises are really not about reforming the local government finance structure; they are about moving money around between one level of government and the other and they are about crafting a political landscape.

Those are my remarks. I'd be happy to take questions.

The Chair: We have approximately five or six minutes per caucus, and we'll start this morning with the official opposition.

Mr Gerry Phillips (Scarborough-Agincourt): Thank you very much. I have a lot of respect for your knowledge in this area. I know you study this and bring a tremendous background to it, including your work on the Fair Tax Commission, which provided a useful bank of information.

I want to start on the property tax thing. It was about a year ago when the Minister of Finance came before us and we said: "You're going to eliminate the business occupancy tax. The average bank tower will see their property taxes go down $3 million to $5 million each." There's no question of that.

Mr Mackenzie: That's arithmetic. Once you've made the decision to get rid of the business occupancy tax, it's no longer public policy; it's arithmetic.

Mr Phillips: It's your 17% number times a $25-million — that's what will happen.

Mr Mackenzie: Exactly.

Mr Phillips: You've also indicated that for small businesses, their property taxes will go up around 15%. We're all getting those phone calls now, a flood of phone calls: "What is happening to my taxes?"

Mr Mackenzie: You'd better get some extra lines, because I suspect the phone calls you are getting now are nothing compared with what you're going to get when the assessment roll comes down.

Mr Phillips: I believe that, but let's just stay on the business occupancy tax for a moment, Mr Mackenzie. We said, "Listen, is this what you want? Is this what the policy is designed to do?" and that is to cut the property taxes for a bank by 17% to 18% and increase them for small business, on average, by 12% or 13%. What the government said was: "Yes. We know that's going to happen, and that's just the way it works. We're bringing in uniformity."

How do you respond to that? The government said, "We know that's going to happen, we know that will be the result of the bill, but BOT is 96 years old and it's time that it met its unfortunate but none the less natural death," and this new system will come in, which has that result. How do you respond to the government saying, "Well, that's just tough luck for those businesses"?

Mr Mackenzie: Looking at it as a policy analyst, sometimes you can become a prisoner of simplicity; you articulate something that looks incredibly appealing and incredibly simple. It's very easy to make fun of the business occupancy tax. It used to be even more fun, because in its original form in 1906 it was the quintessential articulation of Victorian values. Distilleries and breweries got taxed enormously; big store chains got taxed more heavily. Industry was taxed relatively more lightly. You sort of picture — there was a Victorian thing there. There was also a rough sense of kind of an ability to pay that was embedded in that.

When you articulate a simple response and it has that kind of dramatic impact, it seems to me that one would want to step back, look at what this is all doing and see if one can craft a way of achieving the simplicity without producing the negative impacts that you're talking about.

There is a head of steam up in the municipal sector, not among politicians so much, I want to stress, but among people who collect taxes, because the business occupancy tax is hard to collect. It's a tax on the actual business, as opposed to the owner of the property. It's hard to attach. You can't attach it. It's really a difficult tax to collect. Municipal tax collectors talk about businesses being established, running for years and closing down and they never make it to the business occupancy tax rolls because nobody knows who's supposed to be administering it.

There is no question that there's a problem with the tax. It's hard to justify the rate structure in its detail and it is hard to collect. But on the other hand, you have to ask yourself the question: In this economic environment, do you want to be increasing taxes by 12% on small business and reducing them by 17% on the banks? It seems to be you can't get away from that problem.

Mr Tony Silipo (Dovercourt): Mr Mackenzie, thanks very much, first of all, for an incredibly thorough and detailed presentation. I think it's going to take us a bit of time to actually digest it all. I want to pick up on a couple of points, the first one being this point you've been discussing with Mr Phillips on the business occupancy tax.

You've outlined the problem very clearly. I won't reiterate it, time being short, except to point out the irony that for a government that continues to say they want to support small business, they seem to be doing here the exact opposite in their tax policy, which is to increase taxes for small business and reduce them for large businesses.

From that, though, given that the minister has indicated that he wants to bring in legislation to try to fix this problem, but the only way he is proposing to fix it, as far as we could tell from his announcement, is to simply allow for an overriding of leases where right now the landlord is getting this bill because it's being shifted over, and so I think he's basically looking at a way to allow the landlord to collect or pass on to the tenant —

Mr Mackenzie: That's not a solution to this problem.

Mr Silipo: That's not a solution to this problem. What I wanted to ask you was, what would be the more sensible solution, again given that the government is prepared to open the legislation? As you said earlier, the cries for change are going to continue to increase as people begin to digest the full impact of this and all of the other tax changes. What could be done or what should be done, either on this specific piece or on the whole mix and match that's here, in terms of the property tax mess, given that the government is prepared to reopen the legislation?

Mr Mackenizie: I'm not even sure if the government has to reopen the legislation. The government has the power to create a class of property and has the power to set a lower rate of tax on that class of property.

What may require it to reopen the legislation — I'm not sure; I haven't immersed myself in the Assessment Act enough recently to be able to answer the question. I suspect they might have difficulty defining a class of property based on the type of occupant of the property, and so they might have to amend the legislation to permit that to be a legitimate criterion in determining a class of property. But the government has virtually unlimited power in the legislation to establish classes of property, and it has virtually unlimited power in the legislation to permit municipalities to establish different tax rates on those different classes of property.

Now you start to run into the other thing we were talking about, because in order to restore the tax position of small business, you run into the problem with these bands they are creating that limit the ability of municipalities to vary tax rates.

1020

One of the problems with reform in this area is that you repeatedly meet yourself coming the other way. You head out some way and you think, "Oh, that's me going the other way." I don't say this to be less than understanding of the problem a government has in doing something about this. The criticism here is that they ought to have known how complicated this was before they got into it, and they ought to have done some thinking through of some of these difficulties before they brought in legislation.

There are all kinds of measures of the extent to which this government keeps meeting itself coming the other way in these areas, whether it's the 180-degree turns in policy announcements or a bill and then another bill to amend the bill and then another bill to amend the bill that amended the bill, or the wonderful experience we had last fall of bills being introduced to amend bills that hadn't been passed yet.

Mr Silipo: Quickly, to come back to the broader picture you started with, your numbers indicate that the numbers I and others had suggested were even conservative, shall I say, because you're saying it would have been possible, still is possible, for the government to have balanced the budget earlier than they are going to without the tax cut and without the cuts, more importantly, in services. Also, when you link that to the job creation numbers, you point out that in fact there is no direct link between the tax cut and the creation of the jobs.

Mr Mackenzie: Let me put it this way. Without the tax cut, we could have avoided the massive cuts in public spending that we've had, and we would be sitting here contemplating a coming debate about how to spend Ontario's fiscal dividend.

Mr E.J. Douglas Rollins (Quinte): Mr Mackenzie, I want to congratulate you on coming again this year. I hope your success rate this year is equivalent to what it was last year, where you struck out completely. I think last year you predicted that the finance minister was wrong in predicting strong economic growth and consumer spending. On that point, it must be embarrassing for you to say, "I blew it last year," so on what evidence do I believe that this year will be any better?

The balanced budget by 2000, we're pretty near halfway there from where we started in our mandate. I think that's not bad off the track. We're close to 75% of the 30% provincial reduction in personal income tax. Assuming we would have had the same job creation as all the other parts of Canada had we not done that is a large assumption, I believe, on your part. The creation of 725,000 jobs: Yes, we're at 311,000. It doesn't seem to be too bad in the numbers when I look at them from my side of it.

Since when did the province of Ontario decide to set the Canadian dollar? I would like to think that Mr Eves would have that authority, but I don't think it's quite there.

The taxation of commercial and industrial that you seem to think is completely wrong, what's wrong with freezing it? It's the first time it hasn't grown in quite some time. In the last governments, in the last councils in this municipality of Toronto or the area that seems to be crying so loud that we haven't been well trusted in the cutting back of taxes, at least we put a lid on it and it has stopped growing. That must be some relief for those who are paying taxes.

You're quite quick to say, "Don't listen to them, because they're wrong, but listen to me, because I have a lot

better track record than those people do, and the rest of the segments," but I think that success is in making sure we have got a balanced budget, that we are on target. The last government, if I recall — I wasn't a member of Parliament at that time, but unfortunately or fortunately, I was a taxpayer. I was commencing to feel very unfortunate as time went on. But every time they predicted, as far as the finance minister was concerned, he missed on every projection that he put forward to Ontario. They missed badly. It's unfortunate that we, under Mr Eves, have missed badly too, but we undershot the target; we didn't overshoot the target. I think that makes quite a difference.

Those are my comments, and I suspect that some other people will have some.

The Chair: I think, in fairness, we will give Mr Mackenzie an opportunity to respond.

Mr Mackenzie: Thank you. First of all, on the overall job numbers, I don't think you can escape the conclusion, looking at the numbers that the minister has tabled in front of the committee, that the improvement that's taking place in Ontario's job performance and the economy generally is driven by exports. You cannot escape that conclusion.

Mr Rollins anticipated something that I would have said and couldn't and didn't; namely, that Mr Eves is not responsible for the exchange rate and he's not responsible for the growth of the US economy. That's my point. My point is that the growth that's taking place in Ontario is driven by exports and it's driven by factors that have nothing to do with the tax cut position of the Ontario government.

The second point I wanted to make is that I have trouble feeling too badly about my predictive potential. You may know that some considerable time before the minister froze the commercial-industrial tax rates at the provincial level, wearing my hat as the co-chair of the Ontario Alternative Budget Working Group, we released a paper which made exactly the point that led the minister to make that decision. So I think the numbers that we released on the impact of going to a uniform tax rate are perfectly consistent with what the government has generated.

My point about the commercial-industrial, and I thought I made it clear, is that I'm not going to join the crowd bellyaching about how unhappy people are that they're not going to get a tax break that they thought they were going to get. My point is that there's a whole lot of other stuff going on that's extremely subtle and that is going to have at least as profound an impact in the single-family residential sector as the uniform commercial-industrial tax is having in the commercial-industrial sector.

I want to say one more thing before I finish.

The Chair: You'll have to be quick.

Mr Mackenzie: I will be. The fundamental problem with this band system they're producing — I suspect Mr Phillips was about to ask me that, so I'm going to answer it — is that the implicit assumption is that the commercial-industrial property tax is the same tax as the residential property tax. That's like saying personal income tax is the same as the corporate income tax. It's not. It's a different basis. You wouldn't expect the corporate income tax rate to be the same as the personal income tax rate. Why would you expect the rate of tax on residential property to be the same as the rate of tax on commercial-industrial property?

I'm taking that decision as a matter of tax policy, but there's no particular reason you would expect that to be the case. If you get locked into thinking they are the same, then you start driving all these huge tax shifts.

The Chair: I have to interrupt you there. Thank you very much for your attendance and for the preparation and time that went into your presentation this morning, sir.

Mr Wayne Wettlaufer (Kitchener): Mr Chair, on a point of order: I wonder if we could request Mr Mackenzie, as co-chair of the Ontario Alternative Budget Working Group, to supply this committee with a copy of the alternative budget they come up with, because I believe this committee could benefit from that expertise.

The Chair: I think it's guaranteed we'll get it.

1030

CANADIAN TAXPAYERS FEDERATION

The Chair: The next presentation this morning will be by the Canadian Taxpayers Federation, Mr Brian Kelcey, provincial director. Welcome, Mr Kelcey, and thank you for coming.

Mr Brian Kelcey: I want to thank you for the opportunity to speak today on behalf of the Canadian Taxpayers Federation. Here to help me with presentation notes is Jim King, who's manager of our new field organization here in Ontario.

At present, the Canadian Taxpayers Federation is awaiting the results of a detailed membership survey on a range of issues like privatization and health care. Since we remain as confused as all Ontarians, including government members, about several government policy objectives, my remarks today will focus on the overall Ontario fiscal agenda, including fiscal policy matters which impact on rather than appear in the Ontario budget itself.

We will follow up in a few weeks' time with some more constructive comments and a series of papers on specific savings opportunities based on the most recent guidance of our membership. Our 1997 discussion paper on hospital finance will also be available on our Web site shortly, for your interest.

It is actually an honour to speak to you today, I must say bluntly, especially if members consider the tone of the first message I received on our answering machine about these hearings. Some unknown government hack, not part of the committee staff, explained quite explicitly that we were contacted as part of a search for presenters who would be "supportive of the achievements of the government." Happily, there are some.

Laughter.

Mr Kelcey: I enjoy the laughter, but you're taking my time, sir. The government's progress on deficit and debt reduction and its care and attention to the cost of the debt already incurred have been an essential boost to the

attractiveness of Ontario as a site for investment. Confidence in government targets is so high that I heard an opposition MPP yesterday speak to Toronto city council of a $2-billion slush fund as though the budget were already balanced.

The Ontario tax cut has returned billions of dollars to the wallets of taxpayers. While this stands in contrast to Ontario's continued acquiescence to federal tax increases through bracket creep and the CPP, it is hard to argue that the broad-based tax cut has not contributed to the healthy boom in Ontario's economy.

Also, the Ministry of Finance has done wonders for the perception of Ontario's books. Improved financial accountability, closer adherence to commonsense accounting principles and increased use of clear targets and measurable goals have been very positive.

Left without context, these three pillars of provincial fiscal policy offer outsiders the impression that Ontario's government is a commonsense, straightforward player with a steady hand on the fiscal tiller. But the structural and philosophical foundation underlying Ontario's performance, and thus the determinants of its long-term course, are not so sound. To go back to the tiller analogy, the image of Mr Eves steering over a flat ocean looks great, until you look at the compass and see the trouble the damaged rudder is creating. Our concerns today focus on three related themes: credibility, consistency and confidence. The growing lack of all three is leading to fiscal troubles down the road.

Speaking to the philosophical problem, I want to start with the small matter of a long-forgotten pledge to pass a balanced budget and taxpayer protection law. "Pass immediately" was the phrase on the pledge. "In the first sitting" was the government's phrase.

Some of you may know Premier Mike Harris, pictured here. He's signing that pledge I spoke of. In fact, all the members of the government caucus signed it except for Ted Arnott, who had been steadfastly refusing to sign any pledges, arguing he couldn't guarantee they'd be kept. Perhaps Mr Arnott knew something we didn't. I'm prepared to admit today that we didn't give Mr Arnott credit for his integrity and that we gave the promises of others too much credit.

The government has found the time to consider such urgent issues as legal sanction for an official Ontario tartan, so it should find the time to keep its word, now. We recommend the government introduce the promised laws concurrent with its 1998-99 budget, much as Manitoba did with the first draft of its balanced budget law in 1995.

I hope the chair will excuse me for one moment if I direct a comment straight at all government pledge signers present today. Note that we've seen this pledge sit unfulfilled for two years, which means you are making fools of us. In the principle of reciprocity, if our members have to wait longer than budget day for you to keep your word to the electorate, then we will have to make fools of you. I'm no longer sure that will be difficult, given all the new ammunition you've recently given us.

Next there's the issue of inconsistency, which reduces the government's credibility. This is particularly problematic on the revenue side, where the government's extra-budgetary participation in the property tax adventure is starting to impinge on the credibility of its tax cut. Consistency in taxation is a hallmark of good government. Arbitrariness in revenue collection is the hallmark of the Sheriff of Nottingham.

Our first concern is careless taxation. Bill 160's section 257.12 allows one single Ontarian to tax by regulation. The government's excuse for this outrage? They say they needed more time because they didn't yet know what the education tax rate would be. If not, then what was the logic in proceeding with the cost swap in the first place? This concern holds true not just for the upload, but for the famous so-called revenue-neutral download as well.

There are four credibility strikes here: two for making major changes to taxes without knowing the impacts in advance, one for anti-democratic taxation and one for causing all the confusion by stepping back from the original education finance goals in the first place. We have similar concerns about the shift in apartment taxes in Bill 160.

Our second concern — not a surprise this week — is education property taxes. Residential rates are flat, funding is expected to be flat, yet at least at the first announcement we were told that business tax rates will be differential. Any attempt to portray this as a Toronto issue is cynical, to say the least, and I direct that comment at both sides. This is an issue of fair taxation, pure and simple.

The government's stated purpose in maintaining differential rates, even in the short term, is that it hopes to defer the negative impact of wild fluctuations in property taxes. This is astoundingly inconsistent since the main focus of provincial policy in 1997 was to adopt policies — amalgamations, downloads, tax shifts, the BOT cut, and CVA, MVA or AVA, whatever the vogue term is in the government now — in a manner that will create instability for millions of ratepayers. Another credibility strike is deserved here.

We recognize, perhaps better than the government does, the impact of surprise shifts in property tax burdens. To suggest, as Mr Eves has, that it's unfair to shift tax burdens on businesses and then spend millions to sell and implement AVA, the BOT cut, Bill 160 and so on is ludicrous and fiscally unconscionable. Government members, if you're going to screw the taxpayers, at least screw them consistently.

Our third concern, with the business occupancy tax, is surely well known to your constituency assistants now. Somewhere amid all the sad spin about this obsolete tax, a supposedly pro-business government went ahead and cut the BOT without cutting the tax burden itself. The logic? That at least in the short term, landlords can simply charge the new cost to their tenants. Surely somebody in the government was aware that some landlords would be caught in mid-lease. Another strike, for either carelessness or ignorance, and given the number of businesspersons in this government, we think the answer is clear.

Finally, if this is all about fairness, fairness and fairness, as the taxpayer-funded ad bonanza tells us, why is there a unit assessment system for railroads and market assessment for everyone else? The government tells us that railroads need to be protected from market-driven tax fluctuations. That's nice. How about giving the same protection you've offered to Big Rail to your constituents?

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If it's all about transparency, then why does the first assessment notice I've seen in the hands of a ratepayer only refer to the change in assessment as opposed to the new total? Why is there no explanation for the change? How come assessment department staff are admitting to our staff that rules are being made up as the assessment goes along?

Our greatest concern is the root cause of the government's sudden intrusion into the world of ratepayers and their lack of confidence. That cause we've nicknamed the Monster Tory Tax Shuffle. The closest official description is Who Does What or disentanglement. Anyone who's been trying to follow this process knows how ironic both names are.

Money is shifting all over the place. Responsibilities and tax burdens are being shuffled and reshuffled. The province has effectively endorsed municipal deficit spending through its Toronto deal. Downloads are starting to hit local credit ratings, and in this case I'm not talking about Toronto. The province collects $2.5 billion in gas taxes but feels free to download 24% of road costs to property taxpayers. Welfare will now rely on property taxes, despite strong Who Does What recommendations directly contrary. School boards are preserved but left with no purpose. Many taxpayers are still deluded into believing the main objective — removal of education from property tax bills — was met by all this.

No one can make any sense of it, and why not? Because it makes no sense.

We want to make it simple for the government because the government seems to be too busy to assess the consequences of its actions. It's simple. Once you squeeze the toothpaste out of the tube it's kind of hard to put it back in. You're still squeezing. Stop for a second. Ask yourself why.

Here are a few suggestions on how to restore some order to the chaos that is growing around you.

First, we recommend that the government adopt as its medium-term objective the implementation of the Slack-Tomlinson plan to downramp equalization of business taxes.

Second, we grudgingly recommend the government stop CVA and MVA implementation and save itself some money; grudgingly because the reason in this case is that fluctuating changes and the province's willingness to stick for some period to a differential business rate eliminates the primary motive for the change.

Third, we recommend the province set as its post-surplus goals the elimination of property tax financing for education and welfare and begin work to set time lines and measure the feasibility of this objective, given debt repayment priorities.

Fourth, we recommend that the ministries of finance, municipal affairs, social services and education be asked by this committee to prepare a detailed monster tax shuffle business plan, and in line with the government's habits, we suggest a more political name, of course, such as Fiscal Chaos: Our Next Moves Forward. The plan would include clearly stated objectives for all property tax sensitive changes, measures of performance, a history — internal documents included — of the decisions involved and so forth.

Fifth, we recommend this business plan be the subject of hearings by this committee, real, serve-your-constituents hearings, to try to get a single concrete picture of what the Ontario government will look like to ordinary people once the various shifts are over.

It is worth noting that this government was elected with a clear platform — the Common Sense Revolution document — a campaign platform that was supposed to put people back in charge and replace the bureaucratic jungle with common sense principles and policies. Now there is little that can be understood, let alone described with the words common sense, on the table in the government's day-to-day agenda.

With this in mind, we have one more very important recommendation. It's something we rarely seek in our role as advocates for the common interests of taxpayers. In fact, it's something we've only asked for, at last check, four times in almost a decade we've been around across Canada. That something is the resignation of a cabinet minister. We ask rarely in part because it's usually rare that the loss of one man or woman will make the difference.

Today we've found an exception. We believe that Municipal Affairs Minister Al Leach is making the very worst of differences to the lives of taxpayers, assisted by the finance department and everyone else who has had a chance to endorse this increasingly absurd tangent in government priorities. Al Leach has become a one-man big government, his ministry a prison that locks candour, foresight and sanity away.

Confidence in the numbers can be just as important as the numbers themselves. It is hard to retain confidence when one of the men at the tiller is the same man who has offered several descriptions of the meaning of "revenue neutral," who was elected on a promise not to implement MVA and then implemented it, albeit with another cosmetic name, and who says amalgamation will save money in one year and then offers grants and loans to municipalities to cover for the new costs in the next.

Therefore, as a budget recommendation we feel that it's only appropriate to insist on the resignation of Mr Leach from his post and from cabinet, and his replacement with someone who is willing to understand, to publicly understand, the errors made in property tax and municipal policy and correct them, for the good of the fiscal reputation of this government as a whole, incidentally.

Taxpayers have no confidence in Mr Leach. It is frightening that there is anyone left in this government who has confidence in him or his numbers, or in anything he says. He has become a captive of his misstatements, his stubbornness and his own bureaucracy, which in turn have captured the fiscal agenda of this government.

Clearly, Mr Leach's political judgements are at least one root cause of the chaos discussed today. Fiscally responsible governments cannot be seen to be ambushing their citizens. He has to go. If not voluntarily, then he should be turfed in the most humiliating, unprofessional and indifferent manner possible so that taxpayers can at least feel they've got something like a fair trade in the bargain.

The Chair: Thank you very much, sir. We have about four minutes per caucus. We will start with the New Democratic Party.

Mr Silipo: Mr Kelcey, thanks for your presentation. In the usual tradition of the taxpayers' federation, you've been very forthright. Let me try to be equally so and start actually with your last point and say that I don't agree with you in calling for the resignation of Minister Leach, not because I don't agree with the criticisms that you have of him, but simply because surely you, of all people, would understand that the kinds of decisions that are being made and that have been made and that you've been so clear in criticizing — and much of that criticism I do in fact agree with — aren't made by Al Leach as the minister. They are decisions that he is given the responsibility for and is told, "You carry out." Of course, he would have had some influence and some input into that, but these kinds of fundamental decisions are not made by individual ministers. So if you've got a beef, it's against Mike Harris, not against Al Leach.

Mr Kelcey: I'm very in favour of brevity today so my answer to that question simply is, for the moment there are a lot of problems; we'll deal with one minister at a time. Although I believe the member will notice I alluded in my speech to the fact that we are as angry at the people who have endorsed these decisions on the basis, one assumes at least, of the advice of Mr Leach and his department.

Mr Silipo: Yes, I hear that. I want to come back to some of the other points you made. One of the things that jumped out at me, for reasons I hope you'll appreciate, is your recommendation that the province should start working towards the elimination of property tax financing for education and welfare, something that I certainly think is the direction we should be moving in. In a more jovial mood, I would say you must have taken a leaf from the NDP policy directions.

But I want to say in a serious tone that this is something I know more and more people, whether business folks or individuals, have been saying, that this really is the more sensible solution. I just want to be clear that we're saying the same thing when you say that, if you looked at what it might look like down the line, it would involve higher taxes at the provincial level, the combination of — but what it would also mean is the elimination or the great reduction of property taxes that now go into that. Right? But just to be clear, we would be talking about both of those realities taking place.

Mr Kelcey: Over time, but not in the sense that there would be higher taxes. If you're looking at the relative share of what kind of taxes paying for what, that's more something we'd see as adjusting over time, not happening immediately.

I will tell you that the taxpayers' federation is not totally heartless. One of the reasons we're so opposed to all of the changes that the government has been making is because the downloads are putting these new tax burdens, or old tax burdens, on to the property tax bill and property taxes are easily the most socially, fiscally, economically regressive tax that anybody can think of because you're taxing somebody's home, in many cases.

That being said, I'm not sure how well publicized the recommendation was, but I believe my predecessor, Mr Pagnuelo, did recommend at one point that we would, again grudgingly, support a reversal of all these changes in exchange for — essentially, we would have supported the third phase, if you like, of the government's tax cut, meaning a property tax relief rather than an income tax relief, precisely because we were so concerned about the broad impact of these issues.

That's not an easy decision for us to take; we're big fans of the tax cut. But again, given the regressivity of the tax system we're dealing with, to add more to those bills, or to even add the potential of more of a burden on property tax bills, is, bluntly, a stupid and inconsiderate decision.

1050

Mr John R. Baird (Nepean): Thank you very much for your presentation today. After your remark, I look over at my colleague in the New Democratic Party and I can just imagine what his life was like during the social contract when he heard from his friends in the trade union movement. I certainly have a better appreciation for that.

Mr Kelcey: I'm not that bitter, sir. I'm trying to be constructive.

Mr Baird: We appreciate it.

I'm interested in your comments on page 2 with respect to the taxpayers' protection pledge. I, like most of my colleagues, signed it, and would again today, and strongly supported it. I'm certainly confident that a Mike Harris promise made is a Mike Harris promise kept, as are my colleagues. We're still strongly supportive of it, and hopeful. Can you tell us why you feel that would be important not just in the short term but in the long term, what impact that would have and how it would guide public policy decisions?

Mr Kelcey: In part, we recognize that half of the power of such a piece of legislation is symbolic. While it has been expressed to me by some government members that symbolism can wait, it didn't take long to look through the list of legislation passed in this Legislature to see that there are some fairly trivial acts or pieces of legislation that could also have waited, so that you could be entitled to keep your word. The symbolic power that is there is it sets a framework in the minds of people in gov-

ernment and outside it, across the floor, that staying within your means is not a temporary thing, that people don't want to go through again the kind of fiscal recklessness and suffering that we've just been through for the past two decades.

I've sat and listened to, in debates on private members' resolutions, Ms Bassett, for instance, in the House sit there and, despite her pledge, stand up and argue that, "This kind of legislation would be terrible because it would tie the hands of the government," yet the government was elected fiercely arguing and agreeing with us that that was exactly what was needed.

So there's that symbolism; that's useful. But we also think it's important to get it done now precisely because you're setting that framework in place before, bluntly, the next election, and before the temptation comes upon your government to start cutting corners if absolutely necessary and prolonging, say, debt repayment plans or penalties for politicians or referenda for tax increases again.

It's an issue of credibility, it's an issue of setting the final touches on a framework for a provincial government that can work, although that framework is being upset a little, as I've said, by your property tax adventures, and it's a symbolic issue in that it makes it clear that the new standard for government is one where the books will, once balanced, stay balanced.

Mr Ted Arnott (Wellington): As members of the Legislature we represent our constituents, and collectively we represent the people of Ontario, and we're elected for a mandate. The trouble I have with one component of the taxpayer protection pledge form is the referendum on tax increases.

I wonder if any government has the right to tie the hands of future governments, given the fact that it's the right of the government to assess a level of tax that they feel is required to fund programs and then be accountable at the ballot box. I would argue that in the last two provincial elections, the propensity and the willingness of governments to raise taxes — both the Liberals and the New Democrats probably paid a fairly severe price for that at the polls. Why do you think future governments wouldn't be constrained from raising taxes, based on that obvious eventuality, having to go to the ballot box to seek the people's final assent?

Mr Kelcey: My first answer to that would be that one of the difficulties, and I mean this as a sincere and not a negative comment, of being a member in the House is you sometimes lose sight of priorities by being partisan. Yes, the Liberals and New Democrats paid a heavy cost at the end of their various terms of office. What's of more concern to us is the people who are working hard who are paying an even heavier cost on their paycheques, on businesses that didn't need to go bankrupt but their taxes rose beyond their ability to pay them. That's a serious problem.

While we could have a good philosophical debate about whether governments should be tying the hands of future governments, something we do all the time with other pieces of legislation, I think what's really important to look at here, and the argument we've been making more and more, is — look, almost every government I've ever seen in my lifetime has been elected on a promise not to increase taxes, not to increase the tax burden, not to do this or that, and somehow in the end, every government seems to find a way, small or large, to break that promise.

In net terms, your government is in real terms taxing less, but it's still an open question. If things really, really, really screw up, certainly in this year you'll be increasing the net tax burden on many taxpayers. That's the kind of thing that we need to discuss between elections precisely because governments are so good on the tax issue at promising one thing during the election and doing another.

Mr Phillips: Thank you for your presentation. A lot of your comments are on the property tax issue. We in the opposition attempted to warn the government about the problems with the tax issue, and the government, like other governments, tended to ignore the opposition and move on anyway. But I think the senior municipal bureaucrats, the senior civil servants at the municipal level, were uncharacteristically blunt about raising concerns about what was going to happen with the property tax system and three times came before committees to say, "Listen, please look at this."

Here are some of the things they said. The Association of Municipal Clerks and Treasurers, the senior civil servants at our municipalities, said:

"The tax system will be immensely complicated by the institution of 84 classes and subclasses and up to 156 tax rates," that the new system is going to be more complicated than the old system.

"Implementation on January 1, 1998, is a high-risk strategy for the financial health of the municipal sector. The bills will create serious problems. This is a recipe for administrative chaos. This is downloading the government's confusion and indecision to the municipalities."

As I say, I've been around here 10 years now and that's uncharacteristically strong language for bureaucrats, for civil servants, dealing with politicians. They tend to use bureaucratic language, if you will. You're an observer of the government. Why do you think the government has proceeded to move ahead at the speed they're moving ahead and with the problems that are inherent in the system right now even with all those warnings?

Mr Kelcey: As the member will know, we have friends in several parties who tell us things, and certainly I can tell you as much as to say that there is a lot of confusion on the government's side about why that is as well, which is a dangerous sign. The glib answer is to point to the record and say, "Look, the government got angry or got smart, and for whatever motive, decided to take over education and somehow all these different things had to happen to make it work, and it just got screwed up along the way." I think it is a glib answer, because something as complicated as this has to have come from some forces that were themselves more complicated.

The best response I can give to you is to say that I agree it's baffling. I don't know exactly what's going on. What I do know is that our organization, and myself from personal experience in a number of municipalities I have

lived in, have seen full-blown in other provinces market value, actual value, current value reassessment, and it has been universally disastrous. Vancouver is moving away from it. Winnipeg suffered $250 million worth of appeals losses on 50,000 appeals. Just think what it's going to be like with 600,000 or 700,000 appeals.

Anybody who had been looking objectively out in the world could have seen, just as with municipal amalgamation, that this was an insane idea, but for some reason, some sort of momentum somewhere deep within the government pushed them into doing this as fast as possible, and I think the speed, for taxpayers, is terrifying.

The Chair: Thank you very much, sir, for your presentation here this morning. We appreciate your time and effort.

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ONTARIO COALITION FOR BETTER CHILD CARE

The Chair: Our next presenter is the Ontario Coalition for Better Child Care, Kerry McCuaig, executive director. Welcome, Ms McCuaig. Thank you for coming.

Ms Kerry McCuaig: I want to go over some areas which I have put in the category of being themes. One, it's necessary to remind you once again that there has been a litany of cuts since the government took office, to early education and child care programs. That is listed in the brief which will be coming to you shortly.

It has not only been the direct cuts to child care programs. There have also been related cuts in other areas that child care interacts with that have had an impact on the delivery and the stability and the accessibility of child care services. That has been up until December, and we've seen the impact of that. We've seen the loss of child care subsidies, we've seen child care programs close, and we've seen programs that were on line in order to start up not being able to start up because of the impact.

Then we had the December blitz of bills. Although none of those was particularly child care bills, every one of those bills that passed is having and will have a direct impact on child care, specifically because of downloading. Under downloading, the child care funding commitments to municipalities increased by 400%, from $63 million to $333 million. Under the bill, child care was made a mandated service to municipalities, and that is a positive thing. However, attached to it and the changes that were included in the Day Nurseries Act in order to accommodate downloading, we have for the first time funding flowing through the Day Nurseries Act which is not going to regulated child care.

This brings me to my first point, which I can't stress strongly enough: If you are going to spend public dollars on child care, spend them wisely. Don't spend them in a way that produces bad child care. This is not an ideological position here. The research is overwhelming that bad child care is bad for kids, that public dollars spent on child care that don't produce good programs are detrimental for the children who are in them. When we go through these bills, we're going to see again and again that the direction, not only in terms of how much money is spent but in the way it is spent, leads to the provision of bad child care.

Specifically, Bill 142 requires parents receiving social assistance to participate in Ontario Works. Attached to the bill are 12,000 child care placements. Notice that they're not subsidies, they're not spaces; they're placements. What that means is that a municipality that's administering this program is free to direct the parents into the informal sector in order to get their care.

Again, this is a first that we've never seen before, where we've established a two-tier system of care. If you're a working parent and you access a subsidy, you're entitled to a regulated, quality child care program. If you are the child of a parent who is on social assistance, you are relegated to a program where there is no monitoring, there are no safeguards, and the parent is essentially on their own in determining what kind of care that child receives.

Bill 160 and the funding formula which is attached to it I think are going to have the biggest impact on the provision of early education and child care services. I want you to examine the contradiction which accompanies Bill 160 in that in all other areas of social policy and economic policy, we talk about partnerships. We talk about how it makes good sense not to have things operate in silos, but that there should be community partnerships between different areas in order to provide the best possible services.

Our education system, with all its warts, is probably the biggest community partnership program we have. School boards and schools and principals have been responding to community needs in a whole variety of programs, so that we see our schools as neighbourhood hubs that provide not only education but breakfast programs, counselling services to families in crisis, and yes, that are the place where almost the majority of child care programs are situated. This has been not only a benefit to those community partners that have partnered with school boards and with schools, but of benefit to the schools themselves and the kids they serve.

I think we know, and we hear again and again, that if kids are hungry, they don't learn. So what are schools supposed to do? Child care started in schools because there had been lots of documentation of children being dropped off in school yards at 7 and 7:30 in the morning, waiting for the school doors to open. Part of the partnership of having day care programs in the school is to provide for that before-school and after-school care.

Under Bill 160 — and we haven't heard everything about the new funding formulas, both in terms of operating and capital — it seems quite clear that school boards will no longer have the flexibility to partner with the community in offering these programs. When we look at the fact that 40% of child cares are in schools and that they rely on the support the school boards offer them, we are really looking at a great deal of pressure on child care services.

In fact, we're probably looking at whether or not they can survive.

We're now seeing the impact, and you probably saw the article yesterday in the Globe, of the changes that were made in OSAP funding, where student parents are dropping out of school because they can't deal with the increased child care cost. Again, this is a first in Ontario, where we're expecting this one group of parents — whom we've been very angry at because they've been on welfare, who get off welfare and get into school — to borrow money in order to pay for their child care needs, yet we know that without having child care, they are unable to continue their education.

When we put this together, we're looking at child care which started out, when this government came to office, as a fragile service. The cumulative impact of these changes can go both ways. We'll either have a service that goes into oblivion or we'll have a service that no child should be put into.

I want to talk a little bit now about the child tax benefit and the reinvestment strategy. As you know, in the 1996 budget there was an announcement that there would be 200 million new dollars over five years. That money was never spent, and then it was put into a tax credit which no one has yet seen.

I want you to think about whether or not, given the parameters around the eligibility for that tax credit, any family will actually be able to make use of it, because the ceiling for the tax credit is a family income of $20,000. We know what the demographics of those families are and what their child care needs are. Essentially, those are the parents who don't pay money for child care. They are the parents who off-shift: Dad works nights, Mom works days. They're the ones who get Grandma or an aunt to look after their children, and money doesn't exchange hands. So essentially you can announce $1 billion in this tax credit quite secure in the fact that nobody is going to be able to access it.

The other thing I'd like you to note is that there has been a lot of recent attention focused on the deaths of the 50 children who have died while under the care of child welfare agencies. Here again we're talking about community partnerships. Child welfare agencies rely on their community partners in order to fulfil their mandate. We find in the inquiries into the deaths of these children that in most cases the child welfare worker tried to access child care to support those families, and in no case did those children make it into a child care program. I think it's safe to say that many of these children would be alive today if they had had the benefits of that program, if those families had had the support of that program.

This brings us to really the fundamental point I want to stress here with you today: It's not just how much money is spent, it's how it's spent. A voucher to a family participating in Ontario Works or a tax credit to a low-income working family cannot provide support to families in stress. They cannot detect a child at risk. They cannot provide developmental opportunities for vulnerable kids. They don't work in partnership with the community, and they don't provide public accountability for the dollars that we put into child care.

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I'm going to give you a preview of a study that's going to be released in the next two weeks. You've probably all heard about the US studies which document that for every dollar spent on child care for high-risk kids, there's a $7 savings down the line. This was US research in a US environment. There's now a made-in-Canada study that you'll be hearing about. It didn't just focus on at-risk kids; it looked at all kids. It found that for every dollar that the public invests in child care, another dollar is created in the economy. So in economic terms, or in policy terms, it's good spending.

What we're looking for is that there be public accountability for public spending on child care, specifically that the commitment made in the 1996 budget, the full $200 million, go into improving the accessibility of quality early education and care programs for kids, and that any savings from the reinvestment strategy attached to the child tax benefit go into programs supporting low-income families regardless of their parents' employment status. This is also quite important, because if we have a program which only supports working families — you are dealing with the new city of Toronto, which feels under siege right now. If you're only supporting the kids of low-income working families, you're leaving out one in three children in Metro Toronto, who will not have access to any of the benefits of those programs.

As an interim step, we're asking you to look at providing emergency funding for child care under OSAP in order to support those students who are in danger of dropping out because of increased child care costs. We urge you to provide sufficient operating capital funding to school boards to allow them to continue their community partnerships with child care and other programs. We want you to set funding for school boards in order to ensure that every board can institute and maintain quality junior kindergarten programs. Finally, we'd ask you to reconsider your commitment to the across-the-board tax cut.

Our organization is not opposed to selective tax cuts. However, we question why this government argues loudly for universal tax cuts, but when it comes to programs, they insist that programs must be targeted.

Thank you for your consideration.

The Chair: We have about 15 minutes, five minutes per caucus. We'll start with the government caucus.

Mr R. Gary Stewart (Peterborough): Thank you for your presentation. Certainly your presentation is most interesting. As I read through it, you suggest many of the things you want. It appears to me, if I read between the lines, that you're not in favour of private day care or child care; you're strictly interested in continuing with public child care. Am I right to understand that?

Ms McCuaig: We're interested in a mixed system of non-profit and public child care, yes, because in that system there's accountability for public dollars.

Mr Stewart: I just read the one where you're suggesting for people under $20,000 that they might have a

family member or whatever to look after the children. Are you suggesting that should not happen?

Ms McCuaig: No. I'm saying that these people won't be eligible for your child care tax credit.

Mr Stewart: But maybe they want to do that. Is that something we should not be pursuing, to allow parents and grandparents and so on to look after and nurture and teach their siblings? They can't do it; only those who are qualified day care people? Is this what you're saying, that the only ones who will be able to make these kids —

Ms McCuaig: I think we're talking about two different things here. What I'm talking about is the child care tax credit, which gives a $400 credit to families earning under $20,000 provided they spend at least $1,200 a year on child care. Now, because we know the demographics of these families are that they don't have $1,200 to spend on child care —

Mr Stewart: But they may have a grandmother and a grandfather.

Ms McCuaig: Right, and if they're using their grandmother or their aunt or any family member and money isn't exchanging hands and there's no receipt, then they don't receive the child tax credit.

Mr Stewart: I can appreciate that, but I guess my concern is that maybe they don't want it. Maybe they would like their relatives to look after those kids.

Ms McCuaig: That's fine. Families make personal choices. But if you're going to announce a program which is supposed to support these families, you ought not to put restrictions on it to ensure that no one can access the benefits of the program. That's the point that we're making here.

Mr Stewart: I appreciate that but, on the other hand, we have to look at ways that certainly will make sure those children grow up and are educated in life skills etc, which many of their relatives can do.

The other thing that concerns me is, prior to you, we had a presenter who suggested that we have to watch tax increases and we have to be putting taxes down. In your presentation you are certainly suggesting various things and programs that we must have, and I can appreciate that we have to have some of them. How do we pay for them?

Ms McCuaig: Again, you are spending money on child care. We would like you to spend it properly. Just to use one example, with regard to the $120 million that you have earmarked for the child tax credit, we think you're probably going to look at the stats on next year and find: "What do you know? Nobody was able to access that." Rather than keeping that in place as it is, why not make that money — and that's our recommendation — available to actually expand access to child care programs? That's what families need; they need those child care programs.

You estimate that there's going to be $150 million as a result of the reinvestment strategy under the federal child tax benefit. That's $150 million that you're required to spend on programs for kids. We're urging you again not to put it into a credit that no one can access but to put it into the programs that low-income families need to survive.

You're spending $50 million on a voucher program for welfare recipients in Ontario Works. We're saying don't spend it that way, spend it so that these children can have access to quality early education programs and not be put in environments where we don't know how they're being cared for. They may be being cared for quite well, but you have certain assurances when you get into your car that there are regulations which don't turn it into a death trap, and that's all we're asking for kids.

Let's have a system where we know where kids are when they're being taken care of and we know under what circumstances and that there are safeguards for kids when they're being taken care of. Particularly if we're going to use public money, let's ensure that what we're buying is good care.

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Mr Monte Kwinter (Wilson Heights): Thank you very much, Ms McCuaig. I really want to follow up on this whole area of accountability and the area of bad child care and good child care. I agree with you that there are programs available that sound good and they make the government feel good but they're not accessible and they're not effective. We had a perfect example of that with the recent teachers' strike, where parents are encouraged to send in unsubstantiated bills for $40 a day, up to $400, to look after child care that was required while the strike was on. There have been people appearing before this committee who are strong supporters of the government who are critical of that. I would like to get a better definition or maybe some examples of what you consider to be bad care and what you consider to be good care and how we can best utilize the resources that are being applied to that.

Ms McCuaig: I'll do that, but perhaps I could just use a second to say it's ironic that the government recognizes that parents have child care needs when teachers are on strike, but they don't recognize that they have child care needs and need support for those child care needs between the years when their children are zero to five. Just to flag that: Universal child care is fine when you have a teachers' strike; it's not fine for any other time.

In terms of good child care/bad child care — and again, there is plenty of research which substantiates that good child care is a child care program which is delivered by trained staff, which is monitored and which receives sufficient public funding to ensure that the care giver is not overloaded, that she doesn't have too many children to care for. This doesn't mean that it has to be in an institutional setting. These sorts of programs can be well delivered in a home setting with a home child care provider who is trained and supported in the work she does.

Then there are the stark examples, and I will go back to the public inquiries into the babies who have died. These are babies who are identified as being at risk, and we're now looking at the child welfare system and saying, "Why didn't those child welfare workers protect those children better?" In every one of those cases the child welfare worker recommended that there be child care, that these children go into child care to support them and their fami-

lies, because they knew that child care would be a support to the families and that it would provide ongoing monitoring that no amount of spot checks by a child welfare worker would have been able to produce. But there was no child care and these kids are now dead. We can talk about what price we put on something like that.

Mr Kwinter: When you talk about the subsidized care and full care parents, I've met with several groups that are saying that without that mix and without that regulation, the system can't work.

Ms McCuaig: Absolutely.

Mr Kwinter: There doesn't seem to be the realization that it requires that mix and that regulation to provide what we call quality care.

Ms McCuaig: Exactly. Ontario is unique here in that we've developed a child care system which has a range of income users. Those parents who use child care and pay fees — and let's be very clear, substantial fees: $13,000 a year for infant care is not unusual in this city — but their fees, partnered with the fees that come through Comsoc, are what build the system and maintain the system.

If those parents are forced out of care because of the policy changes that are contemplated or the program gets kicked out of the school because the school can no longer support it, then the whole stability of the program collapses and it becomes more expensive to buy care for those families in need who need subsidies.

Just in terms of economics, it's a good idea to have that cross-section, but it's also in terms of social cohesion, that from a very early age children mix with the broad range of members from their community. So it's good public policy and it's good economic policy to have this mix.

Mr Silipo: Ms McCuaig, thanks very much for your presentation. I want to start with the point that you spent some time on, which is talking about the money that the government has allocated, but, as you point out, is by and large not being spent, and the need to change the way in which that is being done.

We have a situation in which a number of presenters, economists and others, while there's not necessarily agreement on what should be done with the money, are in general agreement, as we look at the next fiscal year based upon what has happened over this past year and certainly over the last couple of years, that there's at least $2 billion worth of room that the government will actually have some flexibility on in terms of what to do. Do they continue to reduce the deficit? Do they, for example, spend it on initiatives like this?

What strikes me about what you're saying is that at least within that part of it, you're not asking for the government to spend any more money than they've already said they're prepared to spend. You're saying, "Take this $200 million, the $40 million there is in this year" — which is also, by the way, money they said last year they were going to spend but didn't spend. You're saying, "Here is a way in which, if you're serious about spending it, you actually can spend it, as opposed to the tax structure you've set in place." Is that a fair way to put it?

Ms McCuaig: Exactly. That there are a number of programs where substantial amounts of child care dollars are being spent that don't produce good child care — don't spend it that way.

Mr Silipo: The broader thing that comes out of that and one of the links you make is with respect to what happens with many of the child care centres that operate out of school facilities. As you point out, with the changes, made under Bill 160 there's going to be particular pressure put on those centres, or potentially on those centres — I'm told here in Toronto, for example, but I don't think it's just in Toronto. There will be a situation in which capital dollars for school renovations won't flow to school boards until they've used every inch of space the Ministry of Education deems is available, including space that is now being used for child care centres, which not only provide good service but actually help bolster the enrolment and the movement of kids from child care right into the junior or senior kindergarten programs, where those still exist. That's another pressure that's going to be there.

Do you foresee that school boards are going to have to deal with the crunch of less dollars for education and that one of the things that might happen is some choices that boards will have to make, including, for example, saying to child care centres, "Sorry, we can't afford to keep you here any more"?

Ms McCuaig: That has already happened. In the new city, for example, last September the day cares in the schools should have been signing new leases. These school boards said: "I'm sorry, we can't sign leases with you. We don't know what our circumstances are." We have examples in the Peterborough area where child care programs that were paying a minimal fee to be in the schools have now been given rent costs of $12,000 and $15,000. Also, it's now possible to tax programs on school property which are not strictly under the Education Act. Now, because there's no mention of child care in the Education Act, again we have examples of day care programs in schools for the first time being slapped with $12,000 property tax bills.

So there are two ways it can happen: You can either squeeze them out by putting additional cost on them — because where else? You pressure municipalities, you pressure school boards; they go wherever they can to get their funds, and that's one place they can go — or it just becomes strictly a thing where, "We're expanding, we've got portables, we've got more kids coming in; you, child care, you, breakfast program, you, family counselling service, are not education, and therefore, here's your notice." That's not speculation, that's happening.

The Chair: Thank you very much. I have to interrupt there. Our time is up. I thank you for your presentation.

1130

ONTARIO GOOD ROADS ASSOCIATION

The Chair: Our next presenter this morning is the Ontario Good Roads Association. Good morning, gentlemen. Thank you for coming. Welcome.

Mr Denis Merrall: Thank you and good morning. We are here representing the Ontario Good Roads Association. I am Denis Merrall, president of OGRA and county engineer for the county of Middlesex. With me are Ed Metzler, a councillor in the city of Thunder Bay; Murray Dinning, operations manager for the city of Stoney Creek; and George Stivrins, reeve of the township of Seguin. Sitting in the back is our executive director, Sheila Richardson, whom you have probably met before.

For those of you who are unfamiliar with us, let me say that our organization is the largest municipal association in Ontario and represents the roads and transportation interests of over 600 municipalities across Ontario. Our members range from the large urban regions to the small rural municipalities. Our board of directors is comprised of eight elected representatives from municipalities and seven senior municipal staff. This year our annual conference, which is titled Transportation Work Ahead, is our 104th. It's scheduled in a little over one week's time and we already have 1000 municipal delegates registered.

In addition to our conference, we have actively created new products to help our members keep pace with the changes in municipal life and transportation. We have expanded our education program. Actually, checking it up, we educated over 2,300 people, everything from wheel-installer certification to road inspection and design. These are mostly municipal employees. However, we are getting a greater participation from contractors, consultants and suppliers in our courses. We have had a fair attendance actually from MTO staff in our courses as well. We are becoming quite well recognized in this area.

We have also created new projects such as the road authority information resource centre and other facilities to help people improve their performance and deal with strategic management issues. In addition, we have a technology transfer program that deals with emerging issues in asphalt, concrete and bridge design and maintenance. One of our major initiatives over the past year was our efforts on the working group on standards and performance measures. This group will coordinate ongoing development and maintenance of standards for municipal roads and bridges in Ontario.

The Ontario Good Roads Association has appeared before this committee on several previous occasions, each time coming forward with concerns and suggestions for your consideration in the pre-budget consultation process. We would like to offer the following comments for your deliberations.

Today, we are here to talk about the need to address the issues facing municipalities as they deal with the end of provincial road funding, an increase in the size of their road systems due to the transfer of over 5,000 kilometres of provincial highways to municipalities and the growing capital needs of Ontario's municipal road system.

We need to immediately address the unfunded liability that municipalities have assumed with respect to the roads and bridges in this province. Our transportation system represents a major capital asset which will continue to erode with every capital project deferred and every maintenance activity reduced. We have always said, and it is worth repeating again, that a dollar not spent on maintenance today could become hundreds of dollars when reconstruction becomes necessary due to lack of care.

I want to say that municipalities are very prepared to manage their transportation systems. It is also true that the fact that the province is removing itself from direct involvement in the municipal transportation network does not reduce the importance of the municipal transportation network in supporting Ontario's economy.

Municipalities supported the government's initiative to disentangle areas of responsibility between the two levels of government. We advised the Minister of Municipal Affairs and Housing that we have been and will remain committed to providing and promoting leadership in municipal efficiency and restructuring. OGRA supported the need to change and remains committed to making the provincial transportation system work.

In the past, road expenditures were the only significant discretionary spending item in municipal budgets. This allowed reductions in unconditional funding to be absorbed primarily by municipal road departments. Now municipalities will have a greater financial responsibility for social services, ambulance service and public health. Today, road spending is a smaller portion of the total municipal budget. It is, however, still the only area where municipal councils can exercise municipal preference and fund municipal priorities. Future increases in welfare rates or ambulance usage will likely cause additional cuts to municipal road spending.

We appeared before this committee last year and stated that the government should act on the complete recommendations of the Who Does What committee concerning the transfer of highways and the need to fund, on an ongoing basis, these highways. I want to reiterate that statement today. The government, in our opinion, should live up to the spirit of the Crombie commission recommendations and put into place a dedicated, responsive and consistent source of revenue that will allow municipalities to maintain the public investment in our infrastructure.

There is a resolution from the township of Hope being circulated among municipalities and it is receiving widespread endorsation. This resolution calls on the provincial government to implement a dedicated road user tax rebate and that this rebate be made available to local municipalities to ensure fair distribution of gasoline tax and proper road standards. OGRA will deal with this resolution at our annual conference.

OGRA recommends that to deal immediately with the growing unattended capital needs, municipalities require a dedicated portion of the fuel tax revenue for outstanding capital projects. These projects are required to bring the road system back into good shape over a period of five to 10 years.

I must address the issue of financial neutrality as it relates to the downloading of provincial highways.

OGRA has questioned what appear to be different interpretations on whether highway transfers are part of the Who Does What redistribution of services. The then Min-

ister of Transportation, the Honourable Al Palladini, advised OGRA, "Instead" — of a dedicated source of revenue — "the province will give municipalities sufficient tax room to manage their responsibilities for local services by removing 50% of the cost of education, or $2.5 billion, from local property taxes."

On the same issue, the Minister of Municipal Affairs and Housing, the Honourable Al Leach, in a speech to the association of municipalities, stated: "...the highway transfer announcement was made by the Minister of Transportation, separate from the Who Does What initiative. And it comes with a separate pot of money to support the transition. These pieces were never part of the Who Does What exercise, and they were never part of the equation."

If the transferred highways were never part of the equation, then provision for them has not been made in the increased tax room. We believe that this discrepancy needs to be addressed to ensure Ontario's road system meets the needs of Ontario's industry and commerce.

Additionally, and related to the issue of the transfer of highways, is the issue of the patrol yards that are to be transferred along with the highways and the costs associated with these yards.

OGRA believes that the patrol yards are assets appurtenant to the ongoing liability of taking on these roads, and should be deeded to the municipality receiving the transferred highways, after environmental cleanup. The disposition of picnic sites and other land along the transferred highways such as historic sites must also be resolved. If this land is to be transferred to municipalities with the highways, the sites must be transferred with no strings attached. Municipalities must be free to do what they wish with these sites, including selling them if they so wish.

In addition, the financial information released by the Treasurer on December 12, 1997, indicates that fiscal neutrality will not be achieved without a further $565-million reduction in spending by municipalities in the form of efficiency savings. OGRA is aware that the Association of Municipalities of Ontario has recently discussed the impact of the Who Does What initiatives and has determined that, in the absence of additional funds from the province, the taxpayers of Ontario will have to pay the financial costs of the Who Does What initiatives from their property taxes. Of course, the alternative is you pay the financial cost by depreciating your capital investment in your infrastructure.

A look at recent municipal spending on roads illustrates the declining transportation spending resulting from reduced revenues at the municipal level. Capital expenditures on roads declined by more than $272 million from 1995 to 1996. That's a reduction of 25% in capital spending in one year.

Capital spending on roads is by far the largest single expenditure that road authorities make on their system. In fact, there is little opportunity for municipalities to find sufficient savings in other areas to restore capital spending on roads.

Total expenditures on materials and services for road maintenance declined by more than $30 million from 1995 to 1996. This represents a reduction in spending for maintenance, materials and services, of 5.5% in one year.

Similarly, total salaries spent on road maintenance declined by more than $11 million, which is 2%, from 1995 to 1996. The reduction in salaries climbs to more than $35 million, or 5.9%, in the years 1992 to 1996.

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This means that municipalities are spending less on road maintenance. I believe some of the reduction can be attributed to increased efficiencies. However, the reduction in spending on materials and services likely represents a reduction in preventive maintenance expenditures such as patching, bridge maintenance and shoulder maintenance. Reducing maintenance expenditures in these areas will likely result in future road construction needs which could have been avoided.

It is expected that municipalities will continue to become more efficient in their operations. However, continuing price inflation on materials for maintenance will likely consume most of these savings. Even if it were possible to find greater efficiencies in operations to free up some money after extra costs of materials were paid for, capital spending is so much larger than spending on wages that it will not be possible to reinstate capital spending levels without financial support from the fuel tax.

I must point out we're dealing with the numbers from 1995-96. It will obviously take a while to get the numbers from 1996-97. I think when we look at them we're going to find that this downward spiral was continued in 1997 as well.

Ontario's municipalities are responsible for approximately 90% of Ontario's road system. That means the municipalities are looking after 150,000 kilometres of roads out of the total 165,000 kilometres of road in the province. Ontario's industry and commerce rely on the municipal road network for their transportation needs. An effective and efficient transportation system is an essential component in Ontario's recovery. One-time infrastructure programs are a help, but they do not contribute to long-term capital management strategies. We need to reinstate spending on the renewal of our road system through provincially sponsored capital renewal programs. In the spirit of user-pay, the best way to finance this program is to dedicate a portion of the fuel tax to capital renewal.

I also want to state that municipalities need to hear now how the funds under the community reinvestment fund will be allocated.

I would like to thank you for the opportunity of appearing before you. We know your job is not an easy one and we wish you well in your deliberations.

The Chair: We have about five minutes per caucus for questions, starting with the government caucus.

Mr Wettlaufer: Thank you, Mr Merrall and gentlemen, for appearing today. I have a question relating to the amount of taxes which go to the province and also to the feds. I've asked the ministry staff to get me the exact figure. I don't know if you can tell me what the figure is

that goes from the Ontario taxpayer to the federal government in fuel tax, but it's certainly in the billions of dollars. You've asked that we apportion some of our fuel tax revenue to the municipalities. Have you spoken with the federal government about apportioning some of their fuel tax revenue derived from the Ontario taxpayer to roads?

Mr Merrall: No, we have not had the opportunity to do that. We do support the province in asking that the fuel tax be returned to the province. Roughly, the federal government collects almost as much in fuel tax from road users as the provincial government does. One of the problems the province might have in getting some of the money is not returning some of the fuel tax you collect to the road infrastructure as well. If you show some leadership in that regard, it might help you lever the federal government. We are working with the Better Roads Coalition in supporting them in their effort for a fuel tax rebate at all levels.

Mr Wettlaufer: You are aware, however, that for quite a few years now the Ontario taxpayer has been giving money to the federal government and we have got nothing in return?

Mr Merrall: Yes.

The Chair: Any other questions from the government?

Mr Rollins: Thanks for your presentation today. In your thinking of the roads, do you feel that the weight problem is a very heavy criterion towards misuse of our roads — I say "misuse," but overuse or wearing out more quickly?

Mr Merrall: We have to be a bit careful when we deal with weight problems. We're talking about truckers hauling in excess of their legal load. There was a problem with that many years ago. My partner here, from Thunder Bay, is a retired trucking executive. But under the new programs out there, the audits that are taking place of drivers and vehicles — we just went through a CVOR audit in our municipality checking municipal trucks, an extensive audit beyond what most people ever deal with. What we're finding is that these audits made everyone jump up and — I'm very pleased with the results of our audit; it means that people are improving their performance out there on the roads.

Yes, what has happened in trucks, changing trucking tires to pressure of 120 pounds per square inch from the lower pressures, is harder on pavements, but it improves the truck's fuel efficiency phenomenally. Probably the truckers will say: "We can lighten up the loads and lower the tire pressures. The end result is that the increased trucking costs will be several times the cost of renewing the infrastructure." The one problem I have with that concept is that the people who are paying for the renewal of the infrastructure are not the same people who are benefiting from the greater loads.

Overall, I think trucking has changed. It's a new generation of trucking in the 1990s from what it was in the 1970s. Ed, do you want to add something to that?

Mr Ed Metzler: I think that's true. Truckers are now more responsible. I recall when I started in the business the size of the vehicles was much smaller, but in the wisdom now we have greater weights on our roads, more axles under trailers, and I don't see that in the United States. The company I was with operated in 48 states and all of Canada, and it was always discouraging to us to find that we had different regulations for every province, pretty well. The states are more consistent, but we hit the Manitoba border and there's a different set of rules. A lot of the trailers that we could run in Ontario we can't run in Manitoba or of course into Minnesota. I'm from northern Ontario, so those are our main boundaries. I see most of the states are working with tandem trailers and that's where it stops. Michigan is the only one I know that really allows weights similar to Ontario and Quebec. I don't think there's any jurisdiction in North America that allows as much weight on the roads as our province.

Mr Rollins: That's what I'm trying to say. Maybe that's one of the areas that we should do a little bit more on. I had the pleasure of being in Colorado in the last month or so, and I saw nothing about tandem-axle trailers down there, nothing about 48,000 pounds in gross weight, and I saw roads that are as smooth as the top of that. I can't find them in Ontario. I'm firmly a believer that if we put a conservative effort towards pushing those weights back a little bit — we've gone to the peak and we need to back away from it. You and I are running on rough roads because of those heavy loads. Yes, it'll cost us more, but maybe it's —

Mr Metzler: Northern Ontario really could use some help. It bothers me to find out that a lot of the Canadian truckers are running American routes to get into Canada. In fact — I've said this before and I'll say it again — our Canadian mail is moving through the States.

Mr Kwinter: I'd like to pursue this problem you're having about where the potential funding for these roads is going to come from. We had the former Minister of Transportation, Mr Palladini, saying that there's going to be tax room with the Who Does What, the removal of the educational component, and then we have the Minister of Municipal Affairs saying: "No, that's a separate thing. There's a separate pot of money." Have you got that resolved?

Mr Merrall: I believe it is. The numbers that the ministries of municipal affairs and finance provided to all municipalities do not have an allowance for the highway transfers, so I assume that since it wasn't allowed in the fiscal neutrality calculations, the highway transfers were not part of them.

Mr Kwinter: So what they're really saying is that they want to transfer the responsibility but no funding.

Mr Merrall: To be fair, we received three years' maintenance funding and two thirds of the capital needs that were on the five-year program. I think most of us would like to go to anyone and give them three years' maintenance and two thirds of the capital if they'd take the roads back, because as we all know, it's the ongoing long term. But the three-year program does give the government a chance to build a long-term solution. The three-year, I think, is a stopgap to help us survive, but infrastructure takes more than the three years, and of course

that's only 5,000 kilometres of transferred roads; we have to think about the other 145,000 kilometres of municipal roads out there on top of the 5,000.

Mr Kwinter: Over the years, your organization and others involved in roadbuilding have come before various committees here and complained about the deterioration of our roads and our infrastructure. At one time, when I used to drive into the States, I could hardly wait to get back into Ontario because the quality of the roads was so good. You could tell as soon as you crossed the border at Windsor: Suddenly you were on good roads. That seems to be reversing. What is your reaction to that?

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Mr Merrall: Well, it's not a reaction, it's an observation. For the longest time I've had friendships with county engineers in our border states, and 15 years ago we watched the same thing happen there as what's happened over the last five years in Ontario, where the funding for roads just disappeared. The result of that was a groundswell of public opinion demanding dedicated fuel taxes. You'll remember the truckers' demonstrations in the US that forced, in that case, the federal government to return the fuel tax to states and counties for the capital projects on the roads. Since that dedicated fuel tax has been instituted to renew the interstate system as well as the other roads, we have seen the American road system go from among the poorest to among the best. Unfortunately, we've been going down and they've been going up.

Mr Kwinter: I know that consistently not just this government but all governments have said they don't want a dedicated tax. Revenues from the fuel tax go into the consolidated revenue and they will make a decision based on what the budgetary constraints are. Have you had any indication that they are prepared to change that?

Mr Merrall: I haven't had an indication to date. I think what's going to deal with it is the growing public displeasure with the condition of our roads. The road program is a utility, just like water or sewers. If you notice, the municipalities have found a way to make their water and sewer systems survive by going to dedicated user fees for water and sewer, so much per cubic metre of water you use and a sewer surcharge on that. That's about the only way you'll do the long-term capital planning.

We're dealing with billions of dollars of capital investments here and we have to have a longer term. This idea of, "This goes up, that goes down," playing games, doesn't work in a business sense. We have to take a business approach, the same approach that Union Gas would take towards its gas lines or Bell Canada takes towards its Bell lines or a PUC would take to its watermain system. We need a utility approach, and utilities are always based on user-pay.

Mr Silipo: Just to pick up on that, whether or not we agree with the dedicated road-user tax approach, the bottom-line problem you're highlighting, and correct me if I am wrong, is that there needs to be either that or just an ongoing commitment by the provincial level of government to capital investment in the maintenance and upkeep of our highways.

Mr Merrall: Yes.

Mr Silipo: That's what it really comes down to, right? So your proposal and that of others for doing this is really coming about as a result of your sense that over the years that commitment hasn't been there. That kind of ongoing funding to continue to sustain, to build and rebuild our highways has just not been there, obviously, to the level that you think should be there.

Mr Merrall: Yes.

Mr Silipo: The reason I ask it that way is because I wonder if, and certainly acknowledging that the dedicated tax would be one answer, another answer would be to try, and I'm not sure how — I guess maybe I'm sort of arguing it around and coming back to the same point. In fact, the basic problem that remains is that in the mix and match — and I continue to be a little bit puzzled by the two positions you've put out, even in the exchange you had with Mr Kwinter. I still don't understand, and I really mean this sincerely, what the government is telling you in terms of how, in this kind of trade back and forth, this problem of ensuring that there will be adequate dollars for maintaining our highways is going to be delivered upon. As you read the landscape now, what do you take? Is it just from those additional capital investments that you mentioned earlier? Is that what the government is saying is the answer to this, or is there more that they haven't told you or they haven't told us?

Mr Merrall: The message we have to date is the message that came out of the mega-week, which is that municipal roads are totally a municipal responsibility and the provincial government isn't going to have a financial stake other than this transition funding on transferred highways. That's where we stand today.

The next thing we stand at is knowing that with the cuts that municipalities have had to absorb through cuts in the municipal support grant and other supports and in the efficiency savings here, a lot of municipalities only have about 10% to 20% of discretionary spending, and it will be worse in the future — it will be close to 10%. When we get a bill for ambulance, that's not discretionary; we will pay it. They will have first draw on our tax base, and that's the way it is.

The roads will account for a majority of the discretionary spending, so if you cut somebody's discretionary spending 10%, and roads are 10%, it's not hard to find 100%, and that's an important issue, because with the concept of the community reinvestment fund that is being used to equalize the fiscal neutrality of the transfers, 12% of that disappears after three years, and if roads are 10% of the discretionary spending and they're losing 12% through the cuts in the community reinvestment fund, it's going to be disastrous for capital spending on roads.

Mr Silipo: Are you worried that as municipalities have to deal with exactly that kind of mix and match that you just described and that you talked about in your presentation, one of the problems — although I think all of us would agree that we can see the deterioration of our highway system, particularly when you compare it to some of the other impacts that, municipality by municipality, we

likely will see as a result of the Who Does What trades that have been going on, it's not as immediately obvious, right?

In other words, the deterioration of our highway system is something that you notice once it has happened or you notice gradually if you're paying closer attention to it, but it doesn't compare on the immediacy scale with the closing of a child care centre or the bill for the ambulance services that you mentioned. So that also adds to the problem, that what you've got at the end of the day is a problem that's real, that's continuing to deteriorate, get worse over time, but compared against some of the other tough choices that municipalities will have to make, more immediate pressures, it's going to probably mean that unless there is some political will at the provincial level to say, "No, we've got to inject some additional funds into this," it's just going to be allowed to fester until some time five or 10 years down the road, when it's really a problem.

Mr Merrall: Unfortunately, as people are noticing now, the deterioration and the potholes and the bridge problems are happening now, and that's not because we flicked a switch like closing a day care centre. We have put things off for years, and eventually you come to the end where the Band-Aids won't hold any more; there's nothing to stick to.

I'd say that in general municipalities were quite supportive of whoever was in government reducing the deficit. I think municipalities were quite willing to do their share, and I think they really have. They have supported cutting deficits, but at the same time, day care centres are a very small expenditure for most municipalities. We could wipe out our entire library system — I'd be the first person to argue against it — and it wouldn't reinstate enough capital spent. That's the whole issue. To close a couple of libraries, fundamentally I have a problem with that. But what are you going to do, pave half a kilometre of road? That's where we are.

The Chair: Thank you very much, sir. I appreciate the presentation and I thank you for it. Unfortunately, we're out of time.

That concludes the presentations for this morning. We'll recess until 1:30.

The committee recessed from 1159 to 1331.

GLAXO WELLCOME INC

The Chair: Our first presenter this afternoon is Glaxo Wellcome Inc. Ladies and gentlemen, introduce yourselves, if you would.

Mr Rob Last: Thank you for providing us with an opportunity to appear before you here today and to participate in your pre-budget consultation process.

My name is Rob Last and I am the vice-president of commercial operations for Glaxo Wellcome in Canada. With me is Bill Laidlaw, the director of government relations, and Jennifer Bowman our senior manager of external affairs in Ontario.

We have approached our presentation today from two perspectives: as a business which employs skilled workers and invests in this province, and as a health care provider which develops, manufactures and sells prescription drugs. Like the government, it's our goal to make Ontario the best place to work, live and invest. Specifically, we plan to focus on how the government, in working with the private sector, can put Ontario on the global map as the jurisdiction of choice for our company's and indeed the pharmaceutical industry's investment, and improve the efficiency and effectiveness of our health care system.

Before dealing with these challenges, let me provide you with just a bit of background on Glaxo Wellcome and our activities in Ontario. Glaxo Wellcome Inc is one of Canada's largest research-based pharmaceutical companies, generating sales in excess of $400 million annually. We employ more than 1,200 people across Canada. In the past seven years, our company has more than tripled its workforce, with 80% of that job creation and employment being in Ontario. Incidentally, our Canadian headquarters, as many of you will know, is in Mississauga.

In June 1997 we opened our new technical centre, adjacent to our headquarters. This $120-million, state-of-the-art facility manufactures medications both for the Canadian and international markets.

I have a lot of information in here. I hope you read it. I'm probably going to have to jump through some of it in order to hit the time limit, though, so I'm going to move ahead here.

Canada-wide, we invest more than $60 million annually in research and development. That's done through partnerships with biotech companies, through academic institutions and in support of independent researchers. Since 1993, we have invested an average of 12% of our revenues annually in research and development.

Our company's roots in Ontario date back more than 90 years. We have had a long-standing commitment to doing business in Ontario and working with public sector partners to create the best possible health care system. Consistent with this commitment, we are here today to offer our advice on how to make Ontario the best place to live, work and invest in.

Let me start from our business perspective. We believe that the pharmaceutical industry has a lot to offer the people of Ontario. It provides medicines that improve the quality of people's lives and save the health care system money; it creates high-quality, knowledge-based jobs that are the engine of economic prosperity; it promotes and funds scientific research in universities — in fact, the pharmaceutical industry is the largest funder of biomedical research in Canada, larger than either the provincial or federal government — it invests in the province's infrastructure through high technology operations such as ours; it supports and maintains a strong biotech industry; and it contributes to the health of the community through philanthropic activity, including support for non-profit organizations, such as our relationship with hospice care.

We're pretty proud of the fact that we are named an Imagine company, which means we contribute more than 1% of our annual revenue to charitable donations, which is in excess of $4.5 million.

Given the benefits this industry generates, we're fortunate as Ontarians to have such a large presence of PMAC companies located here. Over 30 of the 65 PMAC companies are headquartered in Ontario, and in terms of employment, about half of the entire industry's employment, or 8,500 people, work here in this province.

Clearly the pharmaceutical industry, in terms of job creation and employment, is a major element of Ontario's economy. Our company believes that all the elements necessary to support and foster the future growth of this industry are here if managed properly. As you may know, our president and CEO, Paul Lucas, is very confident in and supportive of investment in this province and is one of the primary spokespeople for Market Ontario.

There are, however, areas where an improvement is needed to promote new investment, and I'd like to review some of the key factors which influence decisions around investment and assess how Ontario stacks up against other provinces and countries.

The first factor is the availability of a skilled workforce. Canada and indeed Ontario are performing well on this front. In fact, a 1996 global competitiveness report concluded that we ranked number one in terms of knowledge workers. Our industry's employment gains over the past five years have been primarily in research and development staff, an area that requires high levels of education. More than half of the brand-name industry employees in Canada have a university degree. The challenge in this area is to ensure that we continue to provide the right kind of education and ensure that we continue to invest in sciences and technology.

Another factor is the protection of intellectual property, which allows the industry to realize the return on the tremendous investment of upfront research costs involved in developing and bringing a new drug to market. It is estimated to cost approximately $500 million dollars to develop a new drug. Of every 100,000 molecules considered, 10 are actually brought to market and only three provide a return on that investment. So this high cost of research, that continues to escalate, is a primary reason for the drug company mergers you've probably heard about recently. Given this high cost of research, it's not surprising that there's a direct correlation between investments and support for intellectual property protection.

Many of you will have followed the recent discussions on Bill C-91 and the linkage regulations therein, and may be aware of the direct link between patent protection and the level of investment by our industry in Canadian research. Since the initial changes to the Patent Act in 1987, the investment in research and development has increased by 300% in Ontario alone, which translates again into more jobs for knowledge-based workers.

This industry sector's rate of employment growth over the past 10 years is about four times faster than the national average, and as you heard earlier, we at Glaxo Wellcome have tripled our workforce since then. However, even with these recent changes announced by the federal government, Canada is by no means a leader in the protection of intellectual property. Several countries have extended patent protection to compensate for the delay caused by regulatory approval, including the US, Japan and the European Community. While patent protection is a federal issue, we believe it is in Ontario's best interests to advocate for strong patent protection to ensure the continuation of a strong pharmaceutical presence in Ontario.

A third factor is the regulatory environment. This includes both the processes in place for product approval at the federal level and the processes in place to determine whether a drug will be included for coverage within a drug program. Internationally, this is considered a distinct disadvantage for Canada.

We agree with the objectives of the federal approval process: Drugs must prove they are safe and efficacious. However, our process is longer and more time-consuming, and it still takes on average 25% longer to move a product through the Canadian regulatory process, as compared to the United Kingdom.

Once the product is approved and receives its notice of compliance from HPB, and the price approved through PMPRB, we then have to apply to the provincial governments for reimbursement under each provincial plan. In the case of Ontario, the Ministry of Health has done an admirable job in working with the industry over the past two years to reduce the duplication associated with these submissions. However, the process itself has not changed substantially and the time from submission to reimbursement has not changed. In fact, we have not seen a revised formulary in Ontario since August 1997.

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These delays at both the federal and provincial levels are detrimental from a number of perspectives. Patients do not get access to safe and efficacious medications, the Ministry of Health does not realize any system savings as a result of access to new products or services, and drug manufacturers do not see the best return on their investment. As such, we continue to be supportive of the work of the Red Tape Commission to reduce the level of bureaucracy in the ODB process and have provided suggestions to them and to the Ministry of Health as to how this process could be redesigned.

Before moving on to discuss the health care system, let me summarize our recommendations on how to make Ontario the best place for this sector's investment.

The first point would be to ensure that we continue to train and education highly skilled knowledge workers; second, to support the improved protection of intellectual property; third, to continue efforts to reduce red tape at the provincial level and advocate for the same at the federal level; and fourth, to work with the federal government to increase the level of direct investments in research and development.

Turning now to health care and recognizing the challenges inherent in managing our health care system, I want to focus my remarks on two things: how the appropriate use of pharmaceuticals can improve health and the quality of life for Ontario residents and improve the efficacy and

effectiveness of the health care system, and second, the advantages of a more integrated service delivery.

Innovative pharmaceuticals save lives, reduce the short- and long-term costs of illnesses, reduce the need for surgery and hospitalization and improve the quality of life. The largest single factor in controlling and curing diseases has been the development of new medicines. It may come as a surprise to you that as a percentage of total government spending on health care, the cost of brand-name, patented medicines is actually just 3%.

One of the many examples of the tremendous impact of pharmaceutical research and development is in the treatment of HIV/AIDS. In less than a decade medical treatment has changed significantly from the initial focus on treating symptoms to today's combination therapies which fight the cause of the disease.

A large international study demonstrated dramatic benefits as a result of anti-retroviral combination therapies. One of the primary components of these combination therapies is 3TC, a drug that we're proud to say was discovered, developed and marketed in Canada through a partnership between Glaxo Wellcome and Biochem. The benefits included improved health for HIV patients, leading to about 50% fewer hospital admissions, 55% fewer outpatient visits and 53% fewer prescriptions. We now understand the potential benefits of triple therapy in delaying the progression of this disease and reducing the rate of death of HIV/AIDS patients.

Another great example is one of our products, Zofran, which reduces the nausea and vomiting associated with chemotherapy for cancer patients. Before the development of Zofran, patients often had to remain in the hospital because of the terrible side-effects associated with chemotherapy.

During the early 1990s, the ratio of chemotherapy switched from about 80% inpatient and 20% outpatient to about 20% inpatient and 80% outpatient. While Zofran wasn't solely responsible for that, it certainly played a lead role in that occurring. Doctors told us what a tremendous difference this drug made in terms of the patient's quality of life and their ability to keep patients out of hospital.

I've outlined these examples just to illustrate the value our innovative products bring to the health care system, yet we often hear about the increasing cost of brand name drugs and the need to take steps to control these costs. In fact, I would make the argument that the total cost of drugs should be increasing and that this increase is good for the health of our residents and the effectiveness of the health care system.

The overall cost of drugs for third-party payors, including the Ontario drug benefit plan, is increasing for a number of very good reasons. As individuals age they tend to require more prescriptions to manage chronic health problems. The average person younger than 65 years receives about eight prescriptions annually while the average person over 65 receives about 25 annually. As our population ages, the population as a whole will be using more prescription drugs. Utilization as a result of aging is the predominant factor in increasing drug costs, while reducing costs in other elements of the system.

New drugs are being developed to treat diseases where treatments have not been available before. I have already discussed the impact of triple therapy on HIV patients. Another example is Alzheimer's disease, a particularly important area as the population ages.

Practice patterns are also changing, and these include the use of prescription drugs to prevent disease and the complications of disease. As an example, approximately 33% of current dialysis patients are diabetics who have kidney disease as a complication of their diabetes. Studies have demonstrated that the use of ACE inhibitors by diabetics can prevent the onset of kidney disease and reduce the demand on dialysis services.

Less treatment is being provided in hospitals, so the drug costs are being transferred from the hospital budget to drug budget. Zofran, which I mentioned earlier, is a really good illustration of that trend. In fact, it's fair to say that in a number of areas the development of drugs has facilitated the move from hospital care to community care.

Increasing drug costs are a reflection of changes in demographics, changes in the practice of medicine, advances in technology and the restructuring of the health care system, all of which are inherently reasonable.

It is also important to know that we as creators of this innovative technology must demonstrate the value of a product in terms of quality-of-life improvement or savings to the overall health care system in order to be included in the ODB formulary. New drugs which cannot demonstrate their value are not approved for the formulary. As a result, the addition of new drugs to the formulary may result in an increase in the drug budget but a savings somewhere else in the system.

Unfortunately, the response by some to the increase in the drug budget has been to get those costs under control. We have seen Ontario and other provinces in Canada institute policies that restrict access to products, either by making it more difficult for physicians to prescribe the drugs or by making it more expensive for patients to take particular drugs. In light of the reasons for increasing costs, limiting access to medications which have been proven to be safe and efficacious just doesn't make sense. In fact, study after study in other jurisdictions has consistently demonstrated that reducing access to drugs increases the costs in other parts of the system, such as increased physician visits and use of hospitals, all of which drive up total costs even faster. Cost-cutting measures may result in short-term savings, but only at the cost of poorer patient outcomes and longer-term pressures in the rest of the health care system.

We also hear concerns expressed about the inappropriate use of drugs, usually associated with people taking drugs when they shouldn't be or taking the wrong drug. Inappropriate use also results from people not taking drugs as they are prescribed or not getting a prescription when one is needed. Glaxo Wellcome is involved in a number of initiatives to ensure that drugs are used appropriately.

A good example of that is the partnership we have with asthma specialists in community asthma care centres across Ontario, which are intended to educate people with asthma and their families to better manage this disease. Our preliminary data indicate that through the appropriate diagnosis and use of asthma medications, decreases in hospital admissions and emergency room visits of from 40% to 70% can be realized, the costs of which far outweigh any increase in drug costs.

The appropriate use and cost of drugs must be addressed within the context of the entire health care system. The focus should be on how the system as a whole can operate effectively to meet the health care needs of the population rather than on how to control costs within a single component of the system.

As part of our business, we interact on a daily basis with health care providers across the province and we understand the pressures they are facing in delivering the best care. As you all know, the health care system is facing tremendous changes, which are difficult to deal with in any environment. We're also aware of a number of communities across the province that have initiated work towards the creation of more integrated services. Based on our research, we believe that moves forward to improve the integration of services and eliminate the artificial barriers of silo-based planning and budgeting are a good thing.

A more integrated system offers a number of benefits: incentives for improved quality of care, better coordination of patient care across the continuum of services, more efficient delivery of services through the use of computer technology and improved accountability for the use of resources. Over the past year, we have been working with Queen's University to look at how services could be integrated and what tools are needed to move forward with integration.

I'm going to summarize my comments on health care and move right to the end, given the time, by recommending that the government work with the pharmaceutical industry to better understand the role of prescription drugs, appropriate prescribing and patient compliance; that the government manage the ODB budget in the context of its impact on the health care system, recognizing the value of prescription medicines to the system as a whole; and that the government assist communities to move forward with the creation of more integrated delivery systems.

We appreciate the opportunity to offer advice based on our experience and our shared goal of ensuring that Ontario continues to be the great place it is to work, live and invest in, and we would be happy to answer any questions that you might have for us.

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Mr Silipo: There is a lot in here which, if time allowed, we would like to get into, but let me just go back to one of the first points that you made and that is about the desirability of a highly skilled workforce as one of the key factors in continuing the important role the pharmaceutical industry, among others, plays in our society.

One of the points that was made to us yesterday by the Council of Ontario Universities was that one of the areas that the government has to turn its mind to is the need to invest in post-secondary education. As I understood it, I think it was more or less along the lines of the point you're making, which is that it's by investing at the front end that you make it most possible for us to have the highly skilled workforce at the other end but also the kind of growth in the economy and in jobs overall that we all would like to see, as opposed to the approach that some would say the government has taken, which is the other way, of reducing expenditures in part as a way to try to get the jobs created. I'd be interested in your sense of to what extent you might agree with the approach that the council was putting forward to us.

Ms Jennifer Bowman: I think our point is that we have to ensure that there are those types of graduates coming out of our system. I know there is a lot of discussion about the mix of people with specific skills around things like high technology or general arts, and I think that maybe a mix of those — I think you're right that we need to have some upfront investment in that educational system to ensure that the right types of people are coming out of your educational system to meet the needs of the industries that are out there.

Mr Bill Laidlaw: I think one of the areas that everyone forgets is that you determine whether you're going to be a scientist, which is the area most interesting to us, when you're in grade 5, 6 or 7, so by the time you're at university it's probably too late. The reality is that all the high-tech industries, all the future for Ontario, lies in science graduates, and a lot of the work has to occur much earlier than university or college.

Mr Silipo: Even before you get to university, long before.

Mr Laidlaw: Yes.

Mr Rollins: Thanks for your presentation, and once again, thanks for being such a good corporate citizen, to remind us that there are companies like yours out there, because I think it's good, that you deserve that credit.

One of the other things that you haven't mentioned but we hear about in my constituency office all the time is generic drugs, and those are products that I suspect you people take part in too. What are your feelings towards those?

Mr Last: As you may know, we participate in the generic sector of the industry as well. We believe there is room certainly in Ontario for a generic sector; in fact we have a booming and thriving generic sector in Ontario.

I think one of the misunderstandings is that there are significant debates between our two sectors of the industry, the ethical and the generic sector. In actual fact, when you boil it right down, the issues we have had with the generic sector have all been related to patent protection.

Beyond patent protection, I think we both want the same things. We want transparent processes, we want access to markets, we want to be able to work with the government and have our products available and, quite frankly, as a taxpayer in Ontario, at the time of patent

expiration of any patent-protected product, if a generic comes on the market that's 25% or 50% lower in cost, fine, it should go in the formulary. I don't think we have any issue with that at all.

Mr Rollins: Glad to hear that.

Mr Wettlaufer: I'd like to draw your attention to what you said about the drug formulary, Mr Last. Last fall or last spring, we had the Deputy Minister of Health, Margaret Mottershead, in the estimates process and she explained the process involving the addition of drugs to the drug formulary. I'm wondering if you have any suggestion as to why there has been such a delay in adding drugs to the formulary.

Mr Last: I can only speculate that, historically, delays in introduction of formularies have been used as cost-containment measures of the drug budget silo. I think the point I was trying to make in the course of my presentation, though, is that that has implications in the health care system at large. While I don't know the specific issues associated with this delay, I do know that is considerably longer than what we have historically been used to.

Mr Kwinter: I'd like to follow up on that discussion. I've always been concerned that there is an inherent conflict of interest. You have the provincial government, through the Ministry of Health, probably consuming 40%. I'm not sure what the figure is now but I know at one time it was about 40% of all of the pharmaceuticals sold in the province were sold through the ODB. Is that still a number that's about right?

Mr Last: Yes, it's probably closer to 50% and it will continue to rise, of course, as the population ages.

Mr Kwinter: So what we have is that the gatekeeper, so to speak, is also the major purchaser. As a result, you have what I think is an inherent conflict of interest. Has it ever been addressed that there be a separate entity that evaluates the efficacy of the product and then leaves it to the government to choose what products they want out of those and how it integrates into the ODB?

Mr Last: In fact, Ontario is one of the lead jurisdictions in the world, along with, I believe it's New Zealand, that requires pharmacoeconomic analysis to be submitted with our products for inclusion on the formulary. The intent, as I'm sure you are aware, is to demonstrate where the value in the system is generated as a result of the introduction of these new technologies, a couple of examples of which I cited.

Quite frankly, we have products we have introduced into the marketplace that have not been able to successfully cross the hurdle of pharmacoeconomic scrutiny and are not listed on the ODB formulary. There are other products, however, which we believe do that are not on that formulary. I think there are lots of controls in place to ensure that the appropriate medications are being considered. It's really the manner in which they're being considered.

The Chair: Thank you very much, sir, for your presentation and your time today. We appreciate it.

PHARMACEUTICAL MANUFACTURERS ASSOCIATION OF CANADA

The Chair: The next presenter is the Pharmaceutical Manufacturers Association of Canada. Good afternoon, sir, and welcome. Thank you for coming. Please introduce your associate.

Mr Greg Hines: Thank you, Mr Chairman, and members of the standing committee for giving us this opportunity to outline the views of the Pharmaceutical Manufacturers Association of Canada on the government's budget for 1998-99.

My name is Greg Hines. I am the chief executive officer of Leo Laboratories Canada Ltd in Ajax, Ontario, and also the chairman of the PMAC board of directors. My colleague with me here today is Mr Gerry McDole. Gerry is the president and the CEO of Astra Pharma Inc of Mississauga, Ontario, and he is also on the board of directors of the Pharmaceutical Manufacturers Association of Canada and the co-chair of our PMAC Ontario regional committee.

We're pleased to be here today on behalf of the innovative pharmaceutical industry in Canada to offer our insight on the key issues facing our industry in Ontario. What I'd like to do is take a few minutes to present a little bit of the background on our industry and then a few of our insights and our objectives, and then ask my colleague Gerry to expand on how we think we might move some of these objectives forward successfully.

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First, as a backgrounder, I begin by pointing out that PMAC represents Canada's research-based pharmaceutical industry. Our members are actively engaged in innovative research, development and manufacturing of prescription and non-prescription medicines. The member companies of PMAC employ more than 17,000 people in Canada.

I'd say that Ontario is really home to the innovative pharmaceutical and biotechnology industry in Canada. More than one half of our members have their Canadian headquarters in Ontario, and several others maintain a significant presence. Together, I think we make a very sizeable and direct contribution to the economic wellbeing of the province.

I'd cite a few examples of that. Directly, we employ more than 8,500 people in Ontario. We inject at least $1.4 billion annually into the Ontario economy, which by the way is larger than the drug budget. We invest more than $286 million per year in R&D activities. I'll expand on that a little bit more: $920 million in land, facilities and equipment. We pay more than $75 million in provincial taxes, and we're investing tens of millions of dollars a year in supporting the emerging biotechnology sector.

With respect to the $286 million, or almost $300 million, that we invest in R&D, just a little caveat as an aside here: A good percentage of those funds are targeted towards basic and clinical research at Ontario universities and hospitals. Through those R&D investments, for many of them we pay the full cost for patient treatments, in-

cluding physician services, laboratories, medicines and other indirect costs at hospitals. Much of these investments made have a direct reduction in your budgetary requirements in health care.

Another point that we might make with respect to our investments is that the innovative pharmaceutical industry contributed more than $57 million to the five faculties of medicine in biomedical research in 1995-96, which is an increasing trend of 345% over a seven-year period.

Another point we'd like to make as a backgrounder is that the innovative pharmaceutical industry in Ontario is renowned for its export potential. Many Ontario PMAC companies have North American and in fact global research and development and product manufacturing mandates. For example, in 1996, Eli Lilly in Scarborough announced the opening of its multimillion-dollar state-of-the-art R&D facility in Toronto, which attracts research dollars from all over the world. As well, Janssen-Ortho Inc, another member company in Don Mills, through its facility has a global manufacturing mandate for intrauterine devices.

Maintaining these types of mandates and attracting new ones, with the accompanying jobs, the investment dollars and the economic development potential that come with them, is a top priority for our industry in 1998. But we can't do it alone. If we're going to succeed in bringing these jobs and these investment dollars, it's going to be vital for the provincial government to demonstrate that Ontario is a receptive business environment for our industry and is willing to work with us to achieve these goals.

Insights and the issues for our industry: PMAC supports the direction the Ontario government is taking to improve the fiscal and economic climate in the province. Cutting taxes, streamlining the regulatory process and spending smarter have all contributed to the province's improved economic performance since 1995.

A key part of the government's fiscal policy, though, is restructuring Ontario's health care system to eliminate waste, duplication, fraud and mismanagement. The savings achieved through this restructuring are being directly reinvested into front-line patient programs. At the same time, the government is increasing health care commitments for spending in 1998-99 to $18.2 billion, demonstrating, we believe, its ongoing commitment to providing good health care in the province.

Our industry supports the government's stated policy of improving direct patient-focused care through an integrated health system, hospital restructuring, primary care reform and other needed initiatives. Unfortunately, though, we feel that the role of pharmacotherapy, which is recognized by your Health Services Restructuring Commission and other observers for its cost-effectiveness compared to hospital and other institutionally based patient care, has not been fully embraced by the government.

As a result, we have three issues that we think we need your help on.

The first was perhaps mentioned by our previous colleagues, members from Glaxo: Market access is restrictive in Ontario. This restrictive market access for us means it's much more difficult for us as an industry to continue to invest in new jobs and in R and D.

The value of medicines and their role in the improvement of quality of life of Ontarians and reduced health care costs we don't think is understood very well, quite frankly.

We also think that the government of Ontario is making crucial decisions affecting our industry without consulting us whatsoever.

I think we've done a lot in Ontario as an industry. We are doing a lot in Ontario as an industry for the economy and for the health care of Ontarians, and if these three issues are addressed, we feel we can do one heck of a lot more in Ontario.

I'll ask my colleague Gerry McDole to address some of those concerns and provide some suggestions for how we might move forward.

Mr Gerry McDole: As Greg has already mentioned, we have done a lot in the province and would certainly welcome the opportunity to do more. To do that, of course, we have to have access to the market. To me, that's always been a rather obvious statement to make, but we seem to have to continually remind people that — and I divert for a second for an analogy.

When we met with Minister Palladini a while ago I thought one of my colleagues used an excellent analogy. He said, "When you're trying to attract Ford and GM and Chrysler into Ontario, you at the same time tell them that Ontario citizens can't buy their cars or trucks." That basically is what we're talking about here when it comes to access to the market. By achieving it, we not only get optimal therapy for treating the diseases and better health outcomes for the patient but we address that balance between industry and the government.

We recognize that the government, particularly the Ministry of Finance, as you review programs for the health ministry, will be looking specifically at the Ontario drug benefit program. You estimated $1.3 billion in 1997-98. You also stated that some 525 drugs have been added to the provincial drug formulary since 1995, which on the surface at least would symbolize some commitment to improving patient access. But that number needs to be put into perspective, because the reality is that by far the majority of those medicines are not new medicines but rather generic copies of innovative brands.

While it's true that an aging population and an increased utilization of drugs, both of those factors, drive both the brand-name and generic drug costs — we have forced the program costs up, one can argue — we believe there are better ways to reduce the costs and in effect spend smarter. On this issue we're a little concerned that we have to say that the managed benefits program is quite a concern because this new scheme would appear to be linking reimbursement for specific medications to clinical guidelines. To link to clinical guidelines we clearly have no quarrel with, but unfortunately clinical guidelines frequently get interpreted as economic guidelines as opposed to real health outcomes.

As developers of our innovative brands, we have five fundamental issues that concern us about this scheme.

The first is that it fails to allow for individual therapy. Each medicine is presumed to be as effective as the other, and for each patient the same as the other, which we know is not the case.

It fails to reflect the importance of a range of options for physicians. Many diseases, such as mental illnesses in particular, often require several attempts, a somewhat trial and error approach, before patients are stabilized.

There is a new approach to drugs as a burden — not exactly the way we would like to see it — "the problem needs to be contained" rather than a potential solution. We need to look at real cost pressures in the system.

The evidence from other jurisdictions, whether it be provinces in Canada or other countries, which have introduced similar types of measures is that overwhelmingly the inevitable outcome is that you increase the cost somewhere else in the system, somewhat like squeezing a balloon: It pops out somewhere else. These increased costs are generally more costly services, whether they be physician visits, lab use, or particularly institutions, which of course drive up costs the most.

Despite the obvious and profound effect these new approaches might have on our business, we have not, as Greg has already mentioned, even been consulted in the development of these programs.

We recognize it's not your mandate necessarily as a committee to review the proposed policies from different ministries, except perhaps for their fiscal viability, but we do believe upon further scrutiny that the managed benefits scheme that's being proposed currently is unwise because of its potential harm to patients and also because the numbers simply won't add up to savings in the end in any case.

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At minimum, we believe we can offer some guidance and experience on how to make this work effectively for patients, for prescribers, for the industry and for the taxpayers. Improving the market environment in Ontario for our industry through a more open formulary process would allow the innovative pharmaceutical industry to enhance its R&D spending commitment, increase its manufacturing activities in the province, provide more jobs and economic development and have a home-grown solution for the benefit of all Ontarians.

As we speak of the value of medicines, committing to provide greater patient access to new medicines is based on a vision that recognizes the inherent value of medicines within the health care system, not only through the contribution to improving the quality of life but also reducing the overall health care cost to the system as a whole.

The government has recognized that in order to preserve and improve our health care in Ontario we must spend smarter, and we certainly would agree with that. However, we believe that the government needs to acknowledge and understand how improving investment in drug therapy can assist in achieving your long-term goals of cost containment within the health care system.

New medicines often represent new therapies that are used in the treatment of previously untreatable diseases. We're going to see even more of that as we move into the future. HIV/AIDS is certainly a current example where roughly some 15 years ago there were no therapies as this disease first emerged on to the scene to the scale it is today. It has now been clearly established that antiretroviral therapies not only improve the health and quality of life of patients afflicted with the illness but in fact now we are seeing an extension of life significantly beyond what it was and there's even the word "cure" being spoken of.

There's an increased cost, of course, as a result of these new therapies and they have substantial economic benefits to society as a whole: fewer hospital admissions, fewer outpatient visits, increased productivity in the workplace. These benefits can be seen already as a result of the launch of 3TC, which was in fact a Canadian discovery.

Some other examples of social and economic benefits of our medicines include new medicines to treat schizophrenia which have reduced the need for hospitalization. According to the Canadian Coordinating Office for Health Technology Assessment, with greater access we could see a further $660-million reduction in health care costs across Canada.

New cholesterol-lowering agents have been shown to reduce the incidence of fatal and non-fatal heart attacks, lowering the rate of heart surgery and angioplasty and reducing the need for hospitalization due to a heart attack or angina or left ventricular failure.

Hormone replacement therapy, used to treat the short-term and long-term symptoms and complications associated with menopause, has improved health outcomes and reduced overall health care costs, particularly in the areas of osteoporosis, cardiovascular disease, Alzheimer's disease, fewer fractures, fewer hospitalizations, less need for long-term care.

New inhalants improve the physical, emotional and social life of patients with severe asthma or other respiratory diseases. Thromboses of the leg can now be treated at home, where previously it took five days in hospital.

A recent analysis of hospitalization trends in Ontario shows that between 1990 and 1996 we've had a reduction in acute care hospital beds by some 29%. During that same period of time, the length of stay in hospitals in Ontario declined by 18%. These results are significant, and some of it at least is due to the increased use of pharmacotherapy as opposed to changes in the health care system as a whole. They do provide overall savings to society.

For employers and private drug plan sponsors the value of new medicines can be found in reduced absenteeism and reduced short- and long-term disability payments.

New medicines, therefore, when they are researched, developed and manufactured by our industry can be a key component of improving the quality of care in the province and managing the health care system at the same time. Unfortunately, we traditionally have looked upon managing this through what we refer to as a silo effect. Failing to

budget in an integrated fashion and failing to recognize this means that we measure and make more cost-effective health management resource decisions difficult. It is an integrated system and therefore needs to be looked upon in that fashion when managing the cost.

From a partnership point of view, we have recognized for some time the desirability of working with various consumers. Medicine stakeholders and government four years ago launched a campaign called Knowledge is the Best Medicine. This program has a twofold objective: first, to improve the quality of care associated with medication use; second, to help manage the costs associated with medication use.

The Ontario Ministry of Health is one of our active partners in this regard, along with the Ontario College of Family Physicians, the Ontario Pharmacists' Association, the Allergy Asthma Information Association, the Ontario Lung Association, the Arthritis Society, the Ontario division of the Canadian Cancer Society, the Parkinson Foundation and the Federated Women's Institutes of Ontario. Together, in addition to our other PMAC member companies, we have played an integral role in addressing the use of medications in Ontario. We also have played an integral part in a pilot program in Ontario designed to learn more about how to provide clinical practice guidelines in a community setting and to increase awareness of appropriate drug use and patient care.

The Pilot for Appropriate Anti-Infective Community Therapy, PAACT, took place from October 1996 through March 1997. It was a community-wide, multistakeholder initiative aimed at demonstrating whether or not through cooperative educational efforts we could have an impact on all of the stakeholders and achieve optimal, cost-effective antibiotic therapy in a community setting, using the Ontario anti-infective guidelines as the yardstick. The project was a major success and provided invaluable insight into how anti-infective guidelines and guidelines for other therapeutic areas could be used as a tool to achieve the appropriate use of medicines and deliver the most cost-effective patient care. It is in fact a guideline which works well on a voluntary basis as opposed to a mandate.

Our industry has a great deal to offer, we believe. We could help the government in developing and containing health care costs and improving patient care. Increasingly, we find that the provincial government is not working all that closely with us. In fact, when it comes to crucial containment policies, we are often in isolation. The managed benefit program is certainly one example of that. We have not been asked for input or recommendations, and yet we feel there is an opportunity to share experiences that would lead to a better outcome. We'd be pleased to offer our advice in these forums or any other forum as we try to improve public policy.

We are encouraged by the Minister of Health's recent announcement indicating her intention to develop and consult on a long-term health care vision for Ontario. We would certainly support that initiative. We believe this vision should encompass the role of pharmacotherapy as well in generating patient outcomes and more cost-effective health care.

To conclude, I'd like to summarize those three points. The innovative sector is substantial now. We'd like to do more. However, in order to do that, we clearly need to have access to the market with fewer restrictions so we can continue to make new investments that will create jobs here in Ontario.

Similarly, we believe the inherent value of medicines needs to be recognized so that we can improve patient and fiscal outcomes at the same time, particularly as we go through the restructuring of health care services and focus on community-based care here in Ontario, where pharmacotherapy can play an extremely important role.

Finally, while we as an industry recognize that there are many other stakeholders, including government, to ensure the appropriate use of our medicines and optimal patient care, we would like to be able to work together with government in developing major policy decisions that affect our industry rather than embarking in isolation.

The budget process provides the government, and I guess all legislators, with an opportunity to demonstrate a commitment to improving the investment climate for our industry while also recognizing or balancing that need to have access to the market with the need to contain the overall health costs and overall health objectives. We can do this together as we meet our economic objectives.

Continued growth of our industry is linked very directly to improved patient access. Understanding the value of medicines and working with us can lead to reduced health costs overall without sacrificing either patient care or our ability to invest and create jobs in the province. In a nutshell, we want to work with you and be part of the solution as opposed to being deemed part of the problem.

I thank you for the opportunity to share our views with you this afternoon, and we would be pleased to answer any questions if you have them.

The Chair: Thank you very much, gentlemen. We have about two, two and a half minutes per caucus, starting with the government caucus.

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Mr Stewart: There's probably not one of us around this table who doesn't want to be cost-effective. The question I'm going to ask you is maybe a little bit outspoken or whatever, but I have difficulty — you're talking cost-effectiveness, yet what relationship do you have with the medical profession to keep costs under control and set standards that drugs are not issued on a "Let's issue a whole bunch" basis? You take one drug and then you have to take another one to offset the reaction, and then you have to take another drug to offset that reaction.

I recently had a constituent come into my office with the bottom of a green garbage bag full of drugs that he was not using. I look at you gentlemen, the pharmaceutical industry, and you want to market your products. The products you're creating are great; I have no problems with that at all. But what type of policing or standards or control do you have, working with the medical profession, to make sure we can be cost-effective, that we are not giving

drugs out because somebody doesn't have someone to talk to that particular day?

If we're going to be cost-effective on this thing, there's got to be some type of policing. I've talked to the ministry, which looks after the costs coming in. I'm saying, "What kind of things do you have in place to control this?" and I'm being told, "We don't have a lot." I worry about that.

Mr Hines: I'd really like to comment on that. It's a major frustration for us as an industry. We don't have anywhere near enough involvement in that. We funded a study jointly between the universities of Toronto and Guelph to look at the inappropriate use of medications and exactly the problem you're talking about. That study came out with a result that showed that across Canada, inappropriate use of medications is costing the Canadian health care system between $7 billion and $9 billion a year, which is absolutely ridiculous.

We recognize, and one of the recommendations made in that particular study was, that the consumers, the patients, need much more information on the prescription drugs they're taking. Patients, consumers, have very little access to unbiased information on their medicines. They either get it from their physician during the time they're in the physician's office or while they're in the dispensary, from the pharmacist. We as an industry are not allowed to talk to the patient. The amount of information that we can transfer to the consumer is only if the consumer who is on a prescription for one of our medicines contacts our head office.

What we feel is drastically needed is some kind of infrastructure in which the amount of information that we have on our medicines, which is more than anyone else has, is put into some kind of system that's a partnership between government, medicine, pharmacy and academia so that patients and consumers can get access to information on prescription drugs. Right now, the access they have, outside of their health care professional, is the National Enquirer, magazines, the Internet etc, and it's the wrong kind of information and it's leading to exactly the type of problem that you've presented to us.

Mr Kwinter: Mr McDole, could you expand on this proposed managed benefits program? What I'd really like to know is, is it proposing that they exercise greater control on access to the drug formulary, or is it actually setting standards as to what prescriptions or what pharmaceuticals are being administered, and in what quantities? Are they in fact acting as the medical diagnosticians, saying, "Here are our guidelines, and you can only administer this particular pharmaceutical in this particular quantity to this particular patient"?

Mr McDole: I wish I could really answer your question, but due to the fact that we haven't been involved and have been kind of on the outside looking in, I can only tell you from the snippets we've picked up what we think is taking shape, or at least what I believe is taking shape. Greg can add what he thinks is taking shape.

It would appear to be an initiative whereby you have a mechanism to link the reimbursement of a particular benefit drug to the prescribing guideline that is put into place. Who sets up those guidelines would presumably be some particular committee that would be struck, with scientific background, to adjust them.

Therein lies part of the concern: Are the guidelines based on good health outcomes, which we all would expect and want them to be, or are the guidelines being influenced by the cost of the drugs that would be selected in going through those treatment protocols? There's where the paranoia on our side exists, obviously. The scientific community, on the other side, presumably will argue that they're being put forward on the basis of good health outcomes.

If you look in other jurisdictions where a similar approach has been taken, they rarely stick to the health outcomes issue. They almost always become economic outcome issues, and the costs drive the guidelines as opposed to the health outcome driving the guidelines. That is the risk I would be most concerned about here for Ontario.

Mr Silipo: I was struck by a comment you made that you just underscored, which is that these guidelines, as far as you can tell, were developed without any discussion at all with the industry, or with very little discussion. Is that fair to say?

Mr McDole: To the best of my knowledge, unless Greg has views to overturn that. They may have had discussions with certain companies, I suppose, relating to a particular drug, but to the best my knowledge there has been no joint dialogue with our industry over how to address the guidelines. By the way, if they are linked to reimbursement, they are in fact no longer guidelines. That becomes in effect a policy, and that's what dictates the prescribing choice.

Mr Hines: I think we're most concerned with how they would be implemented. When we look at the Ontario anti-infective guidelines, they aren't guidelines at all. They are a listing of drugs: first-line, second-line, third-line antibiotics. It doesn't tell a doctor when he should use a first-line, a second-line or a third-line; there's simply a listing. What we're worried about is that a bureaucrat or somebody who's got an accounting pencil is going to be telling a doctor, "This is when you use a first-line, this is when you use a second-line, this is when you use a third-line." It's more the implementation from a cost perspective.

Mr Silipo: I hope folks are listening and you'll at least get a chance to talk with the ministry officials and the minister about some of these concerns.

The Chair: Thank you very much, gentlemen, for your presentation and your time this afternoon. It's appreciated.

ONTARIO TRUCKING ASSOCIATION

The Chair: The next presentation will be from the Ontario Trucking Association. Gentlemen, welcome and thank you for coming today.

Mr David Bradley: Thank you very much. I'm David Bradley, president of the Ontario Trucking Association. I'm joined by Michael Burke, who is OTA's manager of government relations.

We're certainly keenly aware and very supportive of the government's stated policy of more jobs for Ontarians and the jobs cabinet and what not, and we hope this will be a jobs budget. There are of course many things needed to create jobs in Ontario, and we've seen significant growth in that area over the last few years, but there are two things we'd like to talk to you about today. One is to ensure fair and equitable and competitive tax treatment, in terms of business versus personal taxes, in terms of Ontario versus other jurisdictions, but also within the business sector in Ontario.

As well, to create jobs, we think it's important that we ensure that there is a proper, competitive and efficient infrastructure in this province. It seems to me — and you'll hear from a number of economists over the next few days, but it doesn't matter which vantage point they're coming from — if you don't have a competitive infrastructure in a jurisdiction, it's difficult for your economy to remain competitive. Trucking really is part of that infrastructure: 70% of all the land freight in the province moves by truck; 90% of everything that Ontarians consume or eat is moved by truck. Trade is the engine of growth in our economy. In fact, about 40% of Ontario's GDP is linked to our exports. Trucks haul 80% of Ontario's trade with the United States, and trade with the US represents 90% of our overall trade.

Trucking is indelibly linked into that process, and you'd expect that, given the fact that the major markets in the continental US are all within a day's truck drive from Ontario, and we see that 60% of Ontario's trade is with Michigan, New York, Ohio and Illinois.

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Trucking makes a contribution, therefore, in terms of not only providing the rivers of trade for Ontario, but that's transferred through and shown and translated in terms of jobs, and the industry, if you look at it in its broadest sense, has about 200,000 Ontarians employed in the trucking industry in Ontario and has a relatively high multiplier rate as well.

In terms of the marketplace, interesting — again, you're going to hear from all the bank economists and what not; some of them I know you've heard from already — but trucking is a pretty good leading indicator of economic activity. We serve every industry, and usually we're about six months ahead of any trend in the economy upwards or downwards, and certainly 1997 was one of the best years in terms of the amount of freight in the marketplace that we have seen in a long time. Our industry has had to adjust to a lot of things over the last 10 or 15 years — deregulation, free trade, the recession etc, and there has been an ongoing restructuring going on in the industry, but last year, for the first time in about 15 years, we started to see some real strength in the fundamentals.

Had you asked me in December where I saw things going this year in Ontario, I would have been extremely bullish. I am still bullish, but I would inject a note of caution that perhaps I might not have in December. Certainly with the Asian crisis, the fallout in terms of the devaluation of the Canadian dollar and the spike up in interest rates that we're seeing, I am now starting to see that in terms of the activity levels of our membership. I don't think it's anything we have to panic over at this point in time, but I still think that recovery in Ontario is somewhat fragile or at least has been made somewhat more fragile by the events of the last few months.

At the outset I said I wanted to talk about a couple of things. Let me first talk about service industry taxation, because here is an area where I believe it's important from a tax policy point of view and from an economic point of view that Ontario be consistent in terms of its tax policy and that it send the proper messages to the marketplace. Trucking, like many other service industries, pays sales tax and business input tax on virtually all of its inputs in our manufacturing process, the manufacture of our service. Presently in Ontario we're paying the retail sales tax on tractors, on trailers, on tires, but it also goes beyond that. We're paying sales tax on our insurance premiums, we're paying sales tax on our warranty repairs, we're paying sales tax on our maintenance and repair labour, so we're also paying on services. Retail sales tax is supposed to be a manufacture tax; we're paying it on some of our services.

Is that fair? We note that the manufacturing sector, the agricultural sector and others don't pay sales tax on their business inputs, and I'm sure there's a very good policy reason for that. However, trucking is part of that manufacturing process, part of the agricultural process, part of the retail process. Without us, Ontario stops, pure and simple. Also, when you go through our brief, you'll see some pretty significant numbers in terms of the increases in costs of transportation, whether that's through taxes or whatever, the impact that has on the final cost of goods sold produced in this province.

We would like to see that rectified. I can recall that in years gone by at this table, current government members were quite supportive of these concerns when we raised them in the past and when previous budgets seemed to single out the trucking industry for special treatment in terms of increased taxes. We know there hasn't been the fiscal leeway; however, we're hoping that the situation is being amended.

As well, what we're seeing is a tax on safety. As someone once said to me — and I believe it to be true if you think about it — in the trucking industry in Ontario at present, the more money you spend on maintenance, the more money you spend on safety, the more money you spend on newer, safer, more environmentally friendly equipment in this province, the more tax you pay. I don't think that's the intent that people want, but certainly I argued three or four years ago, when the sales tax on insurance premiums came on, that that was clearly an example of a tax on safety.

How do we rectify it? Governments in the past have provided exemptions and that kind of thing; however, those kinds of ideas are passé. The best way that we see, and we think the best way for the government as well, is for Ontario to get on side with Quebec and the Atlantic provinces and make some real effort to harmonize the

provincial retail sales tax with the federal GST. That is the way to go. A value added tax, from a tax policy point of view, is the most effective tax.

I think as well that through various exemptions, through tax credits and the like, the impact that might have on low-income-earning people or others who are disadvantaged can be addressed. However, from a business point of view and from the point of view of government having to help maintain and manage two sales tax systems, as we presently do, it doesn't seem to make a whole lot of sense from an efficiency point of view.

As well, we need the Ontario government's support and leadership on another issue that impacts upon the employees in our industry, and we're having a tougher and tougher time finding people to come into our industry. In 1994, in the federal budget Paul Martin reduced the allowable deduction for meals from income tax from 80% of the cost of a meal to 50% of the cost of a meal. At the time, it was convenient for him to argue that he was simply following the lead of the United States, which had similarly reduced the allowable deductibility amount, but also Ontario, which some years previously had reduced the allowable amount from 80% to 50%.

We're not talking about $150 meals at Winston's or $100 bottles of wine at SkyDome. We're talking about truck drivers who are on the road every day of the week for many weeks at a time and whose stopping times and the places they must stop are dictated by hours-of-service rules and other things, not by anything else. It's really a question of subsistence for these people, and we estimate that the combined impact of this meal tax deductibility, the change in the rules, is taking about $1,000 a year extra out of the pockets of these employees. Even if the company were to offset that, the company therefore then pays a higher tax than it otherwise would have to.

What has changed is that this past summer the US President signed a budget bill introducing a phase-back of the 80% deduction up until the year 2003, I think it is. So the precedent has been set in the United States and we're working with the federal minister, but this is clearly an area where Ontario, in its expressed concern for small business and for the worker, could have some equalization of the playing field in that regard.

Infrastructure, as I mentioned, is a key component of the competitiveness of this economy. I hear a lot of people talking about the crowded state and the congestion on our highways, particularly here in Metropolitan Toronto. Sadly, some of them like to blame the trucking industry for that almost entirely. However, that is a sign that the economy is doing well. If the trucks weren't out on the highway, you could take that as a pretty good indication that there's not much happening overall in the economy.

We need to invest in our infrastructure. Back in 1965, the Canadian provinces as a group spent about 20 cents of every dollar collected on road infrastructure, either expansion or maintenance. By 1995, that had declined to something less than 3.5 cents for every dollar. We know the demands on government. However, if you're trying to attract direct investment into this province, one of the most attractive things is access to transportation infrastructure — roads, highways, rail etc — and we are falling behind in that regard.

The Better Roads Coalition, which is a coalition of road users, of which OTA is one, the CAA and others, has done some calculations — you could find this yourself, I think, in the public accounts — which show that more recently, the Ontario government has been taking in about $1.25 billion a year more in road-related revenue than it has been spending on the road system. Finance ministers forever and again have been arguing, "We don't dedicate taxes in this province." What I'm saying is maybe we should and in fact, if you look, there is an historical summary in here of every time the Legislature has looked at that question, and they have indicated that road user fees should go directly to the infrastructure and there have been a host of them over the decades.

1440

The only recent look at that situation in Ontario has been through the Ontario Transportation Capital Corp which of course is the company currently responsible for the tolls on Highway 407, which raises an interesting point. We're paying the tolls on that highway now to the extent that trucks are using it, but we're also still paying the fuel tax, which I think is somewhat unfair.

Also, in terms of the infrastructure, we are concerned about the downloading of the costs for roads and some provincial highways to the municipalities. We're not necessarily so concerned. We do have some concerns about that in a practical sense, in terms of ensuring the continuity of the highway system and the road system in Ontario, but we're also concerned in so far as we are still continuing to pay the provincial fuel tax for travelling on those highways. At the same time, the Ontario taxpayer is paying through property taxes as well and we don't think that is right.

Safety as well is a key consideration here. I know full well and you know full well the stories that have come out of our industry over the last number of years in terms of the wheel separations and the like. I'm not going to blame those — others have — on the state of the infrastructure, but I can tell you it is an indisputable fact that the wear and tear on our vehicles, on the trucks these days in Ontario, is like we have never seen before. That is impacting upon our costs and it is also impacting upon the level of maintenance of the vehicles.

In fact the Transportation Association of Canada, which is an association of all the provincial governments and the federal government, calculated that if we brought the national highway system up to standard in Canada it would save annually 160 lives and prevent 2,300 injuries. The cost saving of that would be $20 million per year for the next 25 years, so looked at in an economic sense as well it makes good sense.

In previous years, I've taken up the whole half hour talking to you, but this year I'm going to stop at this point and allow you the opportunity to ask me some questions. Thanks very much for the opportunity.

The Chair: Thank you, sir. We have about 15 minutes. We'll start with the Liberal caucus.

Mr Kwinter: I was interested in your last comment that a lot of the problems the truckers are having is a direct result of conditions of the roads. I was sort of reading ahead and I thought you were going to hit it, that you were talking about your support for the 407 toll road. What has been your experience with that and is it your feeling that is the way to go to resolve this problem?

Mr Bradley: You've raised two issues. First, in terms of the state of the roads and the impact on maintenance, the industry is spending now more than it ever has on maintenance. While perhaps the perception is that that's not showing up in terms of the results on the highways, I can tell you the investment is being made there.

Highway 407, an interesting point. I think there is the money there now to maintain and expand the highway system if, with all the competing interests government faces, the infrastructure got its fair share. However, at the same time, we are realists and the Ontario Trucking Association was one of the first groups back in the early 1990s that proposed to the former government, "Look, we don't like tolls, but we're prepared for a project as important as Highway 407 to accept tolls under certain conditions." There had to be an alternative route, the numbers had to be public in terms of reducing the debt or paying down the debt, and a number of things.

That did show up in legislation and we wanted to be sure that was in legislation so that at some point in the future, we wouldn't end up seeing tolls on existing highways where there is no alternative and that kind of thing. In that respect, we are very supportive of Highway 407 and I think, quite frankly, it has been an engineering miracle the way that highway has been constructed, or at least the first part of that highway has been constructed.

However, are the trucks using it? No, they're not and they're not using it for the simple reason that it is not economical for them to use it. The trucking industry fully expects that we would pay more to operate on Highway 407 than cars. Certainly, trucks impose more wear and tear on the infrastructure than do cars. We're not disputing that. We never have. So we expected to pay more. However, the current rate is simply out of sight and it's out of sight particularly when the fact is we don't have the bypass yet, we just have the first section. You have to jog north and cross the highway back down again, so any time savings you might have had are non-existent. The other problem is that it makes no economic sense whatsoever to impose any toll in the middle of the night — and a lot of trucks try to operate then, to stay away from congestion — when there's no traffic on all of the alternative highways, which are free.

I really think the Ontario Transportation Capital Corp took a rather cavalier attitude to the trucking industry and said, "Oh, yeah, we've heard them complain before and we saw how in the States they complained and they all ended up using the highway," but you can do your own straw poll and stand on any bridge over the 407 and you won't see very many Ontario-based trucks on that highway. You'll see American trucks and Quebec trucks, because Ontario can't collect the toll from them. So we're supportive of Highway 407, in this case we're not opposed to the tolls, but it's a free market, thankfully, and we have an option, and for the most part the truckers aren't using Highway 407.

Mr Kwinter: What is your attitude on these tandem trailers and things of that kind, and how does that impact on the economics of your industry in Ontario?

Mr Bradley: There are only so many ways that our industry can improve its productivity. I think the industry has done an admirable job. I do think as well, though, that every time the industry has improved its efficiency or its productivity overall historically, governments, plural, have used that as an opportunity to tax that away.

However, in terms of how we can increase our productivity, it's by increasing the cubic capacity of the vehicles that we operate or by increasing the hours of service that someone can drive. Obviously, there are only so many hours in the day and we don't want zombies behind the wheel. We can't move Toronto any closer to Montreal, which would really help our productivity, so the only thing left is to look at the vehicles and make sure that under all the constraints that have to be there in terms of safety and performance and the like they are as productive as they can be.

Quite frankly, Ontario is now falling behind the jurisdictions that surround it, in terms of western Canada, Quebec, New York and even Michigan in terms of some of the vehicles they are allowing, some of them obviously under special permit, but that they are allowing in Ontario.

It's interesting that you'll hear from people who will say that what we need to do to protect the infrastructure in Ontario is reduce truck weights, because Ontario has the most liberal truck weights in Canada and North America, blah, blah, blah. That's not really entirely true, but the Ministry of Transportation in Ontario last year did a study of that. In fact, there were some proposals for some moderate decreases in truck weights and dimensions. They took a look at it and what they found was a 42-to-one ratio in terms of the cost that would impose on the economy of the province versus the savings that would accrue to the infrastructure.

There's really nothing to be gained from reducing the cubic capacity or the size of the trucks. What we have to do is in a measured and a controlled way look at where we can maximize the cubic capacity of the vehicles and therefore also maximize the management of scarce infrastructure.

Mr Silipo: The point that you made on Highway 407, have you come up with or could you give us any idea of what kind of changes would have to be made to the fee, to the toll structure? How much would they have to be lowered for them to become attractive or useful for truck operators?

Mr Bradley: I have to admit I don't have the number. One could, I suppose, try to model that, but it's abundantly clear from the experience now that it's too high. Whether

it needs a 10% or 20% reduction I don't know. Ultimately, the market will determine that.

I think as well that when the truckers looked at Highway 407 initially, we thought we were getting the entire 407. We got the first section last year; now we've got the western section coming on stream. When that hooks up with the QEW, that's going to improve the attractiveness of that highway, and obviously, if we ever get out to 35/115 in the east, that will enhance it further. So it has been a bit of a moving target. All I know is in the present market the current levels are —

Mr Silipo: It doesn't surprise me to hear you say that. My own sense is that the present toll structure is a discouragement even for other drivers to use, let alone the trucking industry. I'm not surprised by what you're saying, and I think I'd be interested in seeing what information the ministry has as they're continuing to look at this in terms of what actually is going on.

Mr Bradley: So would we.

1450

Mr Michael Burke: I think it's fair to say also there have been some administrative concerns with respect to the whole process, and that has been discouraging from a usage perspective as well.

Mr Silipo: What would those be?

Mr Burke: For example, some people who have been operating leasing companies have been billed when clearly they were supposed to be billed for power units and those types of things.

Mr Silipo: I think your points are clear in terms of the kind of overall points you're making around taxation and about the need for continued funding, increased funding perhaps even for the infrastructure to be maintained, and we certainly heard a little bit more on that also earlier on from other presenters. I just note that's obviously something that needs to be looked at and acted upon.

Mr Rollins: Thanks for your presentation. As a bit of my background, long before I got into politics I was a truck driver, so I have a bit of an idea of spending a few hours a week behind the wheel of one of those machines.

I find it quite interesting that you people all talk the same language as far as decreasing the size of capacity of your truck for your load when we are the leading jurisdiction in North America as far as weight is concerned and particularly when I see so many American trucks coming in, and they basically double their loads to come across to Ontario and take advantage of using our roads, because we allow the weight structure that we have on them.

Do you not feel that somewhere along the line we probably should — I know we've got the brakes on and we're not going to increase it, I'm sure of that, but should we not maybe decrease it some to add to the life of some of these roads? Weight has got to be an admissible factor in the cost of wearing these roads out.

Mr Bradley: Interestingly, some truckers might agree with you that we should reduce the weights, because that would put more trucks on the highway, more loads and more pay, and I guess perhaps the market could adjust to that over time. It's who would be in business during that time. It's clear that the shippers aren't going to pay any more money. It's pretty tough to put that genie back in the bottle once it has been let out.

When you look at the scientific research and literature that has been conducted in terms of pavement wear and tear, as I said from the outset, obviously a tractor-trailer or a B-train combination with 140,000 pounds on it is going to impose more wear and tear on the life cycle of a highway than a car. However, the wear and tear from trucks is not really a significant contributing factor to the deterioration of the highway system. In Ontario, clearly the major problem is the freeze-thaw cycles we have in the weather. Trucks, the heavier they are, it doesn't necessarily mean they're putting more weight on the highways, because what you'll have under those vehicles, under those trailers, are more axles, and therefore, the axle weight per vehicle doesn't change a whole heck of a lot.

The studies that Ontario did really demonstrated that the economic downside of reducing truck weights was so astronomical, particularly for heavy industries like steel, forestry, for Ontario-Michigan trade where Michigan does have more liberal weight laws than Ontario, that the cost was astronomical, 42 times higher than the savings to the infrastructure from reducing those weights.

Quite frankly, while you'll find even people within the industry might argue from time to time, "Let's lower the weights back to where they were in the 1970s," I guess we'd all like to hearken back to the 1960s and 1970s on certain things, but that's not the way the world is going, and if we're going to maintain our competitiveness, if we're going to continue to attract new direct investment into Ontario, we have to be able to get the product in and out of here as cheaply and as efficiently as we can.

Mr Rollins: What if we were as a government to sit here and say, "Okay, fine, if you're only going to draw light loads, we'll give you a lot better break as far as your tax and your insurance is concerned" — so that we would encourage more trucks on the road with lighter weights — "and for you people who want to draw that extra weight, you're going to have to pay a little more"?

I just came back from Colorado, and believe me, they have freeze and thaw down there just the same as we do and their roads were as level as that. There was no grooving in them, but their weights are horrendously lower than ours.

Mr Bradley: I would also suggest to you that Colorado has probably spent more per capita as a state than Ontario has. There's no way we can get around it. We have to invest some money in the infrastructure here. The bridges are a bigger problem than the highways. There's no doubt about it. So you're not going to get around it. If we took all the trucks off the highways, it's not going to solve that infrastructure problem.

You might be able to convince a trucker, "Hey, we'll lower your taxes if you lower your weight," but you've got to remember what the trucker's doing. He's hauling the freight of Stelco, Dofasco and people like that. You can't just change the size of steel ingots overnight. It often becomes a truckers' issue but at the end of the day, I

guess, if you change the rules, the truckers will haul whatever the rules are. But it's the manufacturer, the shipper in this province who is manufacturing the goods that we're moving, that's where the cost is going to be really seen in the end.

The Chair: Thank you, Mr Bradley, thank you, Mr Burke. We appreciate your time and we appreciate your submission.

CRAAYTECH PAINTED PLASTICS LTD

The Chair: The next presenter will be Craaytech Painted Plastics Ltd, Paul Peterson. Welcome.

Mr Paul Peterson: Thank you very much. It's good to see you all here, especially Gary Stewart. Let me just tell you a little bit about Gary.

Interjections.

Mr Peterson: How long have you got?

The Chair: You get an hour under those circumstances.

Mr Peterson: I want to tell you that Gary is one fine MPP for Peterborough. He's hardworking, he's well networked in the business community, he's there for the people. Gary, you're a tribute to us and you're one of the finest MPPs we've had for a while.

Mr Stewart: Thank you, sir. Unsolicited too, by the way.

Mr Peterson: Unsolicited. And I want to say hello to Monte Kwinter too. Monte probably doesn't remember this, and it goes back a while, probably about eight or nine years ago. I was a program chairman for the Society of Plastics Engineers. There was an election coming up and you guys were so far ahead in the polls, you said, "There's not much risk here." You were our guest speaker that night, or supposed to be, and voilà, an election left me scrambling to find a new speaker because you were no longer the Minister of Industry and Tourism.

I'm going to give you a little small business perspective today. I'm the president of Craaytech Painted Plastics in Peterborough. We've had a little bit of growth. We're up to 98 employees now, Gary. It shocked me when I had to sign the paycheques the other week. It took me an hour. But anyway, we started small. We started going about eight or nine years ago and we only had about 12 people back then, so it has been a progress. Let me give you a little bit of a small business perspective, especially since I spent six years as a director of the Greater Peterborough Chamber of Commerce, including a year as president. So I think I've got a little bit of flavour of the small business community in a community the size of Peterborough.

First of all, let me praise the current government. Let me praise you because I think you inherited a hell of an economic mess. In a relatively short time you've turned that around. The best thing you've done for business is you've rebuilt the confidence of the consumer and you've done that by wrestling this deficit and you've done it by cutting taxes. That's the best thing you've done for business because those are our customers. When they feel good they're spending more money and we're going to grow with them. Now we've got something we can sell to people. They've got money to spend. That's the best thing you've done.

When you first took power, the current government, you were in this chop-chop mood. I don't blame you; it had to be done. There wasn't too much sympathy from the business community when you started cutting back on government. There hasn't been too much sympathy in the last few months when you were wrestling with the school problem, not that business people aren't sympathetic people. It's just that we went through all our bloodletting during the recession, and I'll tell you, it was massive. The ones that survived are still here today to attest to it. That's reality.

1500

One of the things you did cut I'm a little sensitive to, and that's the Ontario Development Corp. You almost eliminated that. I think you're just basically in a collection mode. I know ODC had a lot of failures, but it also had a lot of successes. My business is one of those successes. When I look back to 1989 when I took over Craaytech, it was a fledgling business ready to go bankrupt. I mortgaged my house, put money into it, and with a loan from ODC we were able to put in some moulding machines, put in a strategy that worked and turn it around. We've grown and developed.

If it hadn't been for ODC, we wouldn't have been able to do that, because the banks certainly weren't going to do it for us. No way. The banks are great at coming out with, "We do a lot for small business," and they make these beautiful brochures, but when you come down to their office, face to face, and you're sitting across from them, they are not risk-takers. If it hadn't been for ODC, we wouldn't be here today. I mention to you too that we've got 98 employees.

Also, if it hadn't been for ODC we wouldn't have survived the recession, because we had some tough times. The market dried up for a while; and it was lengthy, it was a good three years. Interest rates were high. Free trade: We were faced with a shakeout of our manufacturing sector. We just dried up. We lost customers to sell to, missed some payments, went interest-only for a while. We could not have done that with the banks.

I'm a big promoter of ODC if you manage it right. If you go back to the days when it was structured, I think it was under the Bill Davis government, the intent was good. I think it got out of hand, you made some bad loans. But all in all, small business needs capital and we can't get it from the banks.

Let me tell you something about small businessmen. We don't personally need to make a lot of money; we just need to make enough money to be comfortable. We have this entrepreneurial flair. We've got these dreams and goals and visions. We want to develop our businesses. We don't need a lot of personal money, so what we're doing is we're rolling the money we make back into the business to grow the business.

In your absence from ODC the last couple of years, in a way it's been a little fortunate that the feds, under the

BDC, have picked up the slack. They've got some good programs. They've got the Small Business Loans Act, and I've taken advantage of that a couple of times. That's a good program, and one of the reasons that program is probably more successful is that it's administered by the banks. I want to tell you, they're tough with it. Their risk is very minimal; it's almost non-existent through this program. I've used it three times and you'd swear it was their money the way they make you go through your due diligence. You should take advantage of that type of act and look at what you can do in the provincial sector along with it. And bring the banks into this. They talk a good story, but until their risk is going to be minimized, they're really not going to be there. So let's pull them into the front if we really want to help small business. You've got to get creative here.

Another thing you can do if you want to seriously consider doing something with ODC again is doing it so perhaps future loans are tied so that you're networking with another financial institution. Let's say the small businessman puts in some cash, ODC puts in some cash and maybe another financial institution puts in some cash — maybe it is the BDC — and then collectively you have enough money to go ahead.

On the other front, we need more money because of what's happening nowadays. I'm a manufacturer and, even though my primary market base is Ontario, I'm faced with competition now because of free trade from the States. I'm faced with people from New York, Ohio, Michigan who do the same things I do coming into our markets. I've got to compete with them, and they're already serving the greater US market so they have bigger machines, tooling that can produce more per hour. We've got to compete with that, so we need a larger pool of resources. This is why I'm suggesting that maybe you take a real good hard look at how you're going to do this. We do need some help.

I've also taken advantage of what they call the technical personnel program. We hired an engineer in our growth years. We were just coming out of the recession. Picture this: You've gone through three and a half years of hell and now all of a sudden the market economy is picking up but you've got no money to keep pace with it. I needed help. I'd cut down to the bone; I had to in order to survive. This program allowed us to pull in an engineer, which really helped our business. It helped us professionalize some of our engineering services, which allowed me to capture some more customers. I think that's a good program to reconsider. Small business needs help.

Listening to the gentlemen previous to me who were speaking about the 407, I think it's time you gave a real good thought to how big you want to see Toronto get. If you want to put the brakes on Toronto, certainly don't put the brakes on the economy. We need growth. But Peterborough could double if we had a major link like the 407 coming right through. I think if you accelerated your plans to bring that highway up through the Peterborough area, it would be a blessing for our community.

I'm going to close by saying this: No matter what you do, this current government is going to have a hell of a time getting re-elected unless you solve this health care problem. I had to take my wife in for a gall bladder operation a week and a half ago. She had to spend a whole day in the hall; I'm talking 24 hours. She couldn't even get a glass of water.

Regardless of how this problem fell in our lap, without trying to lay blame, it has to be corrected, and corrected soon, before the next election, if you want to get re-elected. If you don't, you're going to have a real tough time. I'd like to see you get re-elected, because I think the current government has the economic policies and I'd like to see another term to continue with that, because my business is tied to consumer attitude and confidence. If that attitude and confidence continues or even improves, my business can grow right along with it. From a business perspective, I'd like to see the current government get re-elected, but for God's sake, solve this problem fast. It needs to be solved so that by the time of the next election it's a non-issue. Now I'd be happy to take any questions.

The Vice-Chair (Mr Wayne Wettlaufer): Thank you, Mr Peterson. We have about 20 minutes, which would be six and a half minutes per caucus, beginning with the NDP.

Ms Marilyn Churley (Riverdale): Thank you very much. I'm sorry I missed the bulk of your presentation, but I was here for enough of it, I think, to understand where you're coming from. I have to begin by saying that I don't agree with you on one factor: I don't want to see this government re-elected. Surprise, surprise.

Mr Peterson: Careful, now, I get a chance for rebuttal.

Mr Baird: Oh, Marilyn, come on. That's not very nice.

Ms Churley: They're taking up my time, Mr Chair. I guess I provoked them.

I heard you express concern about health care. We're hearing on the news that in the dialogues the Premier's having that seems to be a major concern. I expect we're going to be seeing the government slow down on some of that stuff because it is a problem for them.

I wanted to talk a bit about small business. I have three or four, now with the new ridings maybe five, BIAs, business improvement areas, in my community, some of which have been very successful. I've been working with them — I was on city council before I ran provincially — and still work closely with them in terms of revitalizing and improving the area. Where are you from, by the way?

Mr Peterson: Peterborough.

Ms Churley: Peterborough. Let me ask you a question, then: The education tax that there's a big fuss about in Toronto, what do you think about that?

Mr Peterson: We don't like taxes.

Ms Churley: But in terms of fair taxes across the board, do you have sympathy for Toronto in the context of — obviously you don't want your taxes raised. I agree that in order to equalize taxes, I would not want to see Peterborough or any other community have huge in-

creases. But do you agree with the basic premise of fair and equal business taxation?

1510

Mr Rollins: We put a freeze on it.

Ms Churley: Yes, we know you put a freeze on it.

It's a tough one, I know, because —

Mr Peterson: No matter what I say, you're going to have someone on the other side of the fence to say no, but let's put it this way: I think school boards have been out of control for a long time, and the probability for that happening is that they're electing themselves, former teachers and that type of thing. They're padding themselves all the way up the line. They don't get a lot of sympathy from me.

Ms Churley: But I'm not talking about the teachers and all of that, I'm talking about taxation, which is a really tough one, I know.

Mr Peterson: But it leads to it, you see. Toronto's probably the biggest abuser of it, so now they're looking at paying fairer tax —

Ms Churley: Oh no, you're sounding just like these guys. You see, as a Toronto member I thoroughly disagree with that. It's interesting that Ernie Eves blamed past Toronto councils and school boards for higher taxes here when in fact the GTA, the greater Toronto area, was getting $200 million in education grants and Toronto wasn't, and furthermore a lot of their Tory members, like Derwyn Shea and even David Johnson, who was the mayor of East York, and people like that, were in charge of the finances then. So I tend to disagree. I would say that money was not squandered by these people.

Mr Peterson: Let me give you a Peterborough perspective.

Ms Churley: But I wanted to ask you another question, and I've almost run out — is that okay? — about business and ODC.

The Vice-Chair: You have about three minutes.

Ms Churley: I understand that you have some concerns about your relationship with the government and that you would like to see the channels of communication opening up more. Is that a concern of yours?

Mr Peterson: No, I think what I said is I'd like to see some of the loan programs that ODC used to have restructured and restarted.

Ms Churley: How is that hurting small business in particular, not having those loans there?

Mr Peterson: It's just another lack of a source for capital. We need capital to grow.

Ms Churley: And you're finding it's difficult to get startup funds and loans from the big banks still?

Mr Peterson: Let's say your house was worth $100,000 and you had it paid for; they'd probably lend you $70,000. What are you going to do if you need $200,000? This is where we're at.

Mr Stewart: Thank you, Paul, for coming and making a presentation today. Paul's operation is a success story, and I had the privilege of making a statement on his business, on what he has done as a small businessman, in the House back before the we rose.

We've heard today from some of the presenters that our tax cut was the worst thing that could happen to mankind in Ontario. I guess we had two problems. First of all, we had the deficit, which we had to get down. We also had one bigger problem, and that is job creation. I think some of us who are supportive of the tax cut believed it would create jobs. I look at the small business community in Peterborough and I believe it has done that. I'm not trying to put words in your mouth, but do you believe that if you look around our community, the tax cut has a ripple effect on small business and has created jobs in the area?

Mr Peterson: Yes, it does. I really solidly believe that. What we're seeing now, and I see it among my own employees, is confidence. They're out buying new cars, they're maybe trading their houses up. Especially in the real estate area in Peterborough, this year has been their best year in the last four or five years.

In my particular business, I sell to other businesses, to other companies, other factories, other manufacturers. All of them have development plans in action right now. So the job growth that you've seen so far, you're just at the outside of it. Wait two more years; you're going to really see the job growth.

A lot of the things I deal with take time to develop. First of all, they have to have confidence. Someone has to go out and make a business plan and get some capital; they've got to get their engineers and do the development work and the designs; they've got to tool up for it; they've got to bring on the myriad of other components; they've got to debug it; they've got to get to the consumer market. Then you're in a growth cycle. It takes time. It takes a couple of years. So with the projects that, through my customer base, I see on the books happening, you haven't even seen the surface yet. You're going to see solid job growth and it's all on confidence. It's confidence at the consumer level, it's confidence at the business level. Right now it's the best we've seen in about four or five years.

Mr Stewart: One of the comments you made was about the access to money. Certainly, knowing a bit about small business, you're right. It has been difficult over the last number of years. I'm a great believer in partnerships, one being the bank, one being the government, one being the private sector. I think a good example is the infrastructure program that's between the municipalities, the feds and the province that's been out for a couple of years and was pushed to continue.

But one of the problems over the last years, and you get into that difficulty during the recession and during recession times and so on, is the controls and the people taking advantage of it. Certainly the banks have been very hesitant, as they have, because of being burnt. The government has as well. I guess I have difficulty with programs that really don't do a whole lot unless there's a true participation by the other people. How do you put the controls in it? Because small business sometimes goes in and out of business very quickly. How do we put the controls in it?

Mr Peterson: I'd really be happy to answer that. Just download it; take it off your table, your bureaucrats, your politicians. It's not your expertise. Put it where it is. The

banks have got the expertise. Bring them in. Give them a little piece of pie so they can make on it. Let them share a little bit of the risk and let them administer it. Perfect fit. There's your fit. You provide the capital. Let them administer it.

Mr Stewart: The other comment: We talked about health care, and I hope Sandi is better, by the way. Unfortunately, if we don't create the revenue which is created by jobs, then we don't have the funds to offer additional dollars in health care and education and so on. To me, everything comes together on it.

I go back to the job creation and the tax cut and the efficiencies and the accountability. We've heard about restructuring at the municipal level. For the life of me, I cannot understand why all three levels of government have to do the same damned thing, whether it be health care or whether it be social services.

We are accused for restructuring and trying to put services at the level that they can be delivered most efficiently. We get accused of that every day. Yet I look at the feds — and health care is a good example. They have to have control, we have to have control, municipalities have to have control, all of which have big administrations taking money away from the patient.

My point is, I appreciate where you're coming from. We have to have that revenue, we have to have that job creation and small business is what's doing it. Yes, we should be catering to them.

Mr Peterson: Let me tell you how I feel about it, and it's not really fair for me to comment without studying it, but just my own feeling. We're all consumers, we're all people, right? We've all got loved ones and all that so we're all sensitive to this, no matter what party we're from.

There are lots of empty beds in that hospital. I snuck up, went up to the second and third floors. There are all kinds of empty rooms up there with beds in them. So all I think it's going to take is two or three more people working in the emergency ward and whip them up another floor. At least they're in a bed and they're getting some care, instead of out in the hall in bright lights and dying out in the hallway.

I had to take my mother-in-law who had a little heart problem there two or three months ago and she had to get naked into this gurney in the bright hall with people walking around. It's not dignified. Beside her there was this elderly man holding his wife's hand. She's got this death wheeze. She was there for hours.

For God's sake, Gary, let's not die in the hallway. Hire a couple more people. Something's got to be done at the management level and you guys have got to force it. That night in Peterborough, if they had had two more staff in emergency it would have done it. You take the total cost of running that hospital, the extra cost of two more bodies wouldn't be that significant to solve this problem. They've got the rooms.

1520

Mr Kwinter: I want to comment on your observations about the ODC. I agree that it plays a very useful part in the life of a small business. Just to clarify the situation, the ODC was eliminated in its previous form because of an ideological perspective. The minister admitted this. He felt that governments do not create jobs, that this is not the role of government, that the market should work and the role of government is to create an environment where businesses will prosper.

Your comment was that you thought the reason they got out of it was because they had a lot of losses. I was the minister responsible for ODC. I was criticized because we didn't have enough losses, because if you're going to operate like a bank and just do exactly the same thing as a bank does, then you don't need the ODC. The ODC was there for people like you who could not get conventional banking and who were, no question, a greater risk, but they also had great potential as an entrepreneurial small business to grow. You're now at what, 95 employees?

Mr Peterson: Ninety-eight.

Mr Kwinter: That was the concept behind it. I am fully supportive and I'm delighted to hear you fully supportive of that. I just wanted to clarify that for you as well as the technical personnel program. That's another thing that was initiated — I didn't initiate it but it was initiated during my particular tenure as minister. One of the biggest problems small business had was that in order to compete they have to have the technical knowhow and in many cases they can't afford to have those people on staff, so by initiating a program where they would pay — I think they paid virtually the whole thing the first year and then 75% the second year and it kept —

Mr Peterson: It ended up being about a third.

Mr Kwinter: These are the kinds of things that I think government should be doing to help small businesses get that leg up so they can compete. As I say, I'm delighted to hear you being supportive of that. Maybe you can tell your friends over there that that's something they —

Mr Peterson: Oh, is that how it's divided?

Mr Kwinter: Very much so.

Mr Peterson: I wouldn't mind speaking to that. There's something happening out there called ISO 9000, the International Standards Organization. Actually, it's a very sophisticated management system for quality standards with worldwide recognition. It's being dictated now by the larger companies and it's filtering down, and now it's going on about the 10th year or more and it's becoming more and more demanding. It has gone from prime manufacturers to tier 1 manufacturers to tier 2, right down to tier 3. There's a ton of small businesses out there that just can't afford this but they need that help, and without it they're going to find themselves without that market to serve and they'll have to really scramble or they'll go out of business.

We could use some programs to offset those, something like the technical personnel program, that specializes in the ISO. I know I've spent over 50 grand on this damn thing myself, but I was just fortunate enough that I caught it where I'm coming out — I'm still struggling, mind you. Every dollar is going back in and we're tight and we're

just making the payroll type thing; we're growing. I had to put it in, but it was a real strain, believe me.

Mr Kwinter: You make an excellent point, because the actual cost runs now, for an ISO 9000 accreditation, at about $75,000 a year. I was just reading an article that even law firms, if they want to act for companies that are ISO 9000, have to have the same certification. You're absolutely right. That's another role where government can help small businesses that want to be able to be suppliers to the General Motors of the world and everyone else that requires that their suppliers all be ISO 9000 certified, that there be a program to allow them to attain that certification.

Mr Peterson: On that point, Mr Kwinter, it's not just throwing in money to offset the cost. There's a benefit to it, because once you work through this program, your business becomes better because the 23 elements of the program force you to become better. You address all these key elements of managing a business and you become better. Our business became better, and hence, as we're more and more into this program, we're managing our business more professionally than we ever have in our life before and we're getting more customers because we're doing things better and more economically and there's a spinoff effect. We're growing with it and we're improving, so it's an investment in the future.

Someone should ask me something about students. We've got to something about the young; we've got to get the young employed in the scheme of things. We really do, guys. We've got to do something about the youth.

The Vice-Chair: Thank you, Mr Peterson.

ONTARIO NATURAL GAS ASSOCIATION

The Vice-Chair: The next group is the Ontario Natural Gas Association. Please introduce yourselves for the record.

Mr Paul Pinnington: My name is Paul Pinnington. I'm the president of the Ontario Natural Gas Association. Anne McGrath is the manager of taxation services for Union Gas Ltd. Barry Remington is the manager of property taxes for Consumers' Gas Co Ltd. Bernard Jones is president of Blue Apple Consulting and a resource person to the Ontario Natural Gas Association.

We're pleased to be with you once again today. This is the 11th consecutive opportunity we've had to participate in these important proceedings and we appreciate that. On behalf of the members of the association, we have prepared a discussion draft, entitled Effective Public Policy Implementation and Competitive Taxation: Underpinning for a Competitive Economy, which has been distributed to members of the committee. I would ask Mr Jones to take us through the executive summary of this discussion draft, and with your concurrence, Mr Chairman, I propose that my colleagues and I respond to any questions you may have on the conclusion of Mr Jones's presentation. Copies have been provided to the clerk and the representative of Hansard, and additional copies are available for interested parties.

Mr Bernard Jones: As you can see from the title of our brief, we clearly hold the opinion that positive government actions are crucially important to the province's economic performance. In our view, this committee's past reports and recommendations have helped provide the foundation for improved public sector finances in a healthy and growing provincial economy.

We support policy change that enhances Ontario's economic competitiveness and secures our ability to fund basic social programs. To ensure lasting benefits from the policies, we believe the government and the legislators must focus on making sure that implementation is as efficient and effective as possible and that the benefits of change are publicly communicated. As well, the government must put in place and strengthen mechanisms to measure progress and to improve program leadership and accountability.

Our 1998 brief addresses five areas of concern to ONGA members: first, the economy; second, public sector restructuring; third, the fiscal balance; fourth, the taxation climate; fifth, energy policy.

The opportunity for positive change may never be better. Now is the time for the members of the standing committee to provide timely advice to help ensure that the major policy initiatives recently undertaken in Ontario are implemented as smoothly and efficiently as possible.

Let me now take you through our executive summary and recommendations.

First, on the economy, ONGA shares the Minister of Finance's optimistic medium-term economic outlook. The fundamentals are strong; however, a challenge remains to increase productivity and employment.

The Ontario natural gas utilities invest more than a billion dollars annually on economic infrastructure in this province. Opportunities exist for gas transmission and distribution system expansions greater than currently planned, and for gas and electricity market reforms, which together can make a substantial contribution to productivity and employment growth in the provincial economy.

Public sector restructuring is important to our continued economic prosperity. We think now is the time to take stock of the progress made and to consolidate and document the gains, and in this context we have two recommendations.

The first is that we recommend that the standing committee propose to the government that, as a matter of budget policy, no major new government restructuring actions be taken before existing policies are more fully implemented and the gains consolidated, documented and communicated.

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Moreover, given the human resources' drive to the public sector, the government should place emphasis on leadership development and skills upgrading in the public sector for improved performance and accountability.

We believe these steps would help preserve the fiscal balance.

It's been 27 years since an Ontario or federal government reported a budget surplus. The public debt burden on

Ontarians has escalated to the point where it is a threat to future generations. Balanced budget legislation is receiving consideration in other jurisdictions. In that context, we repeat our recommendation made in previous briefs that consideration be given to putting in place legislative safeguards that would reduce the risk that a future government might put Ontario back on an aggressive public spending path.

We also recommend that the government engage in public dialogue regarding the distribution of the fiscal overpayment, or surplus, by taxpayers that emerges once the budget deficit is eliminated. Advance consultation and debate over the allocation of this overpayment to debt reduction, tax cuts and expenditure increases is highly advisable.

In our view, a firm federal-provincial commitment to reducing Canada's debt while also shaving the tax burden would do wonders for consumer and business confidence and help boost investment and employment in the long term. A stable, predictable and competitive taxation climate is also important to encourage investment, economic development and employment growth in Ontario.

As you know, realty taxation is on everyone's mind these days. Pipeline companies pay property taxes well in excess of any amounts that could be justified by local services provided to the pipeline companies. In this context, we recommend that for fairness and ease of tax compliance, the property tax treatment of pipelines should be consistent for both municipal and education taxes, that the tax rate for the education portion of realty taxes should be set by the province, that changes in the education tax should be phased in parallel with municipal taxes, and that the tax should be regionally based.

We also recommend that no additional realty tax burden should be placed on the pipelines as a consequence of elimination of the business occupancy tax. The pipelines were previously not subject to this tax and are promised tax neutrality within the property class.

For fairness and to avoid unjustified and costly tax administration, pipeline assessment should be subject only to a minimal uniform rate of tax. The room for municipalities to tax pipelines should be limited by the province to prevent any worsening of the current overtaxation relative to services provided.

Finally, in this context, compressors and pumps are machinery and equipment, not real property, and should be excluded from the property tax base of pipeline companies.

The recent experience of the pipeline companies has shown that they are vulnerable to arbitrary and unfair taxation.

ONGA proposes that the standing committee recommend to the Minister of Finance that there should be no increase in tax on pipelines, which are already, in the opinion of experts, overtaxed.

We are encouraged by recent government announcements on ranges of fairness designed to help property classes that are unfairly taxed, whereby pipelines are to be taxed at 0.6 to 0.7 times the residential rate, and by the province's intention to set one education tax for pipelines in each upper- and single-tier municipality.

On the question of income taxation, ONGA supports the government's initiatives to reduce the income tax burden. Relatively high taxes go hand in hand with relatively high unemployment.

We recommend that the standing committee advise the government to stay firmly on its debt reduction path.

ONGA does not support carbon taxes or the taxation of residential uses of energy.

Let me comment briefly on the issue of user charges and cost recovery. We are concerned that while some taxes may decrease, government entities might be tempted to raise funds in the form of excessive and unjustifiable user and other cost-recovery charges. In this regard, we recommend that the ministry and the government review the guidelines proposed in 1995 to the federal government by the Business Council on National Issues and the Canadian Chamber of Commerce — we've outlined them in this paper — with a view to achieving user charges and cost recoveries that are equitable and least damaging to the provincial economy.

Now let me talk briefly about energy policy. There are several areas of energy policy with considerable potential to boost investment and employment that warrant the attention of this committee.

The government is aware of the broad-ranging stakeholder support for electricity system restructuring. We propose that the standing committee urge the government to move as quickly as practicable to table draft legislation for review by the Legislature and stakeholders.

There are several restructuring issues on the electricity front within the purview of the Minister of Finance that will impinge on the 1998 and future budgets. Therefore, we have a number of recommendations regarding the implementation of the government's vision of a competitive retail electricity market: first, that the financial structure and obligations, including taxation, of the intended Ontario Electricity Generation Co and the Ontario Energy Services Co be fully consistent with fair competition with private companies and with a level playing field; that there be no undue subsidy to electricity compared with competing forms of energy; that the role and mandate accorded the regulator not be a barrier to the implementation of competition; that the interim electricity supply market be made as open as possible and as competitive as practicable; and finally, that stranded costs, if any, be recovered from electricity system users, not from taxpayers, and that any stranded cost recovery mechanism encourage increased electricity generation business efficiency and cost savings by Ontario Hydro.

We also need to enhance competition in the natural gas market. Legislation to change the Ontario Energy Board Act should be introduced. Moreover, steps must be immediately taken to ensure adequate consumer education and protection in the continuing transition to a fully competitive marketplace.

We recommend the removal of legislative impediments to gas commodity title transfers or sales in Ontario; the

removal of regulation by the Ontario Energy Board wherever there is, or is likely to be, effective market competition; legislative change to give the force of law to gas industry initiatives designed to help protect residential and small commercial customers from undesirable sales practices; that the Ministry of Consumer and Commercial Relations, under the Consumer Protection Act and the Business Practices Act, take a more active interim role in ensuring adequate consumer education and protection in energy markets; and finally, that energy policy and taxation in natural gas and electricity be concordant.

In closing, let me just mention briefly natural gas vehicles. We urge the government to continue to support the development of the natural gas vehicle industry in the province. The displacement of gasoline by natural gas in vehicles dramatically reduces pollutants, including NO_x and $C0_2$, and is an important component of Ontario's smog plan.

We recommend that the provincial sales tax rebate of up to $1,000 for the purchase of NGVs and the exemption from the fuels tax be maintained, that businesses be provided with sufficient tax incentives to encourage them to buy NGV fleets and invest in infrastructure to fuel them, and that the government introduce an NGV fleet bill along the lines of the federal bill.

Mr Pinnington: We're prepared to respond to any questions you may have.

The Chair: We have about five minutes per caucus, and we'll start with the government caucus.

Mr Baird: Thank you very much for your presentation. You certainly gave us a lot to reflect on, particularly on pipeline taxes and other issues, so I appreciate the time you spent to put your presentation together.

I was interested, on page 4 of your presentation, when you spoke about taxation policy in general and encouraged the government to stay firmly on its tax reduction path. Can you tell me, is your industry better off than it was two and a half years ago, and did you feel the tax reduction had played a part in any economic success of your industry?

Mr Jones: I'd echo the comments of the previous speaker that it takes time for tax cuts of a general nature to impact into the economy to affect incomes, to affect investment and saving, and that we will see increasing benefits from tax cuts in a very substantial sense in the years ahead.

I think the immediate effect is more psychological. People have greater confidence to commit themselves — both business, in terms of investment opportunities, and also consumers. I think both of those two things have been reflected in the improvement in business and consumer confidence that's been really quite noticeable in the past two years.

Mr Kwinter: I want to explore your concerns about what is happening with the deregulation or the introduction of competition into the energy field as a result of the white paper on Hydro's future and how that impacts on your industry.

One of the things you comment on is that you feel there should be concordance between the Ontario Energy Board's handling of the natural gas industry and the electricity industry. I'm sure you know that was a recommendation made by the select committee, that at the present time the OEB regulates the gas industry very stringently, but it's really just a sounding board for Hydro and then Hydro goes and does whatever it wants. One of our recommendations is that that should change. I assume you agree with that.

Mr Pinnington: We do.

1540

Mr Kwinter: The concern that I detect in your presentation is, what happens with the stranded debt? I heard someone on television this morning from Energy Probe commenting on what was happening with the new appointment, the new president of Ontario Hydro, the fact that he had come from another regulated industry and that this might have sent a signal that Ontario Hydro was trying to get into some other lines of business. My concern is that this may lead to an offloading of the stranded debt on to anybody who is using their transmission system and will put us at a competitive disadvantage.

Obviously, you've looked at the whole issue of stranded debt and you want to make sure it doesn't impact on the competitive issue. Do you have any comment on that?

Mr Pinnington: Maybe I'll start out and my colleague Mr Jones can fill in. We're participating very actively with the government and with other interested parties through an organization known as SAC, which is an alliance for competition and choice in the electricity market. There's a great deal of detail and a great deal of effort going into this whole process of market design for Ontario Hydro. Certainly one of the key elements is the question of the stranded costs, whatever they may be. There are a number of opinions, that it could be anywhere from zero to $30 billion in big, round numbers.

Certainly the transition that we go through with the breaking out of the various elements of what we now know as Ontario Hydro into generation and transmission — and there are questions about the retail presence of Ontario Hydro. What other things they may do — I know there is a Ontario Hydro International, for example, and I'm not sure whether your question related to some extent to them becoming active in other businesses. I guess our major concentration to date has been on what happens to the entity that we know as Hydro in its new format.

I would suggest to you there's a huge amount of effort going into designing the new market, designing the new legislation, ensuring that the new legislation is consistent with the legislation that's presently in place for the natural gas industry. We feel a level of comfort in the openness that the Minister of Energy is introducing into this process to date by way of the white paper. It was a good initiative. It gave plenty of scope to start the process.

We do have some concerns about the transparency of Ontario Hydro in the transition period, which is now until the year 2000, about the interim market. We're not at all

convinced that on January 1, 2000, you could flip a switch and we'll have a whole new electricity system. It didn't work that way for gas. We're 15 years into the deregulation process and we're still learning. We've come a long way and the customers have benefited a great deal. It's a process that over time I'm sure will benefit the province of Ontario and the consumers and will create a better economy and more jobs here in the province.

That's a broad, general response to your question.

Mr Kwinter: I know the natural gas industry is very interested in getting into the energy market and gas-fired generation. Do you have any concern about the fact that the proposed structure is going to keep Ontario Hydro's generation capability intact and it will be such a mammoth competitor that any opportunities will just be marginal for those people who want to provide gas-fired energy?

Mr Pinnington: Part of the response I suggested to you is the transparency of the process. We must know what their costs are. We must be able to compete with their generation in a fair and open process. This is the independent marketing body that's supposed to be the central focus for power in and power out. We have a serious concern that in recent history the natural gas industry and cogeneration, which I think we've discussed in your presence before, is highly efficient, highly environmentally desirable, and we have not had the opportunity, indeed the opportunities have been thwarted by special pricing regimes on the part of Ontario Hydro. We read recently that their average cost is 6.13 cents a kilowatt hour, and we can certainly produce electric power on to the grid at numbers better than that and still make a profit. So again, we are pressing for openness and competitiveness in this process.

Ms Churley: Thank you very much for your presentation. There's a lot of ground to cover and I'm having a hard time choosing where to go. First of all, I must say as the former Minister of Consumer and Commercial Relations, I've been watching with interest what has been happening in that ministry. The consumer protection part of the ministry is all but gone. There's very little activity there.

Your suggestion that the ministry take on some of the consumer education and protection in the transition I think is a good one, but I suppose it indicates to me that tax cuts and user fees often go hand in hand, and what we have in that ministry is now higher user fees for birth certificates, marriage certificates, death certificates, and very little left in the consumer protection field. I suppose I just wanted to point that out in terms of discussing benefits, the pros and cons of tax cuts, and looking at the other side to that, for which there is the negative. So I don't think that's going to happen right now in that ministry. Feel free to comment on that, of course, in the five minutes, if you want.

I wanted to come back again to the Ontario Energy Board Act, on page 5, where you talk about that. I'd like you to give me some examples of specific areas in this now competitive, changing field where you see the OEB being a detriment to the industry right now. What big priorities do you have? What changes do you want to see?

Mr Pinnington: Let me respond to the first question, about consumer protection.

Ms Churley: I knew you'd want to.

Mr Pinnington: The particular area and the particular reference in our report is to the transition that's taking place with respect to the entry of brokers and marketers.

Ms Churley: Absolutely. The cheque's in the mail.

Mr Pinnington: I might suggest to you that a number of these people are very competent, very credible individuals. There are, however, some who are performing at less than an acceptable standard. We have set up a code of conduct, and what we need to do is put some teeth into the process. The teeth we'd like would be a licensing regime.

We think we can do this commercially as a self-policing industry activity, as is done by other industries — the undertaking industry, the car industry; they all have self-policing activities. We would like to set up something like this.

Ms Churley: That's great. It's really needed.

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Mr Pinnington: But what you have to do, of course, is append this to the legislation. You have to have the force of legislation.

I don't think there would be substantial additional cost to the ministry, but we do need that liaison. I must say, we have had assistance from the ministry already in terms of consumer alerts and those kinds of things. We can handle a good part of it ourselves, from the cost, but we do need that public policy support, if you will.

With respect to the Ontario Energy Board — and I'm treading on some very broad and difficult ground here, I suppose, starting to answer that question — in broad, general terms our objective is to have the Ontario Energy Board regulate monopolies. Regulation is a proxy for competition. If we have a regulator that becomes involved in the transition, which is the broad, general term that's being used in this area, that is determining the degree of competition and finding itself arbitrating between competitors in the competitive environment, we think that's not useful, we think that's counterproductive.

What we're trying to do is maintain a course where the regulator would regulate monopoly activity. That would be the pipe in the ground, the electrical transmission in the case of Ontario Hydro and the electrical distribution facilities in the case of the municipal electric utilities. There should be rate structures in the public interest in that regard.

The natural gas industry is, as we speak, going before the Ontario Energy Board with substantial new proposals to spin off things like appliance sales and service and get them out of the regulated side of the business. They've grown there over the years, but the time has come for this to change and we're in the process of making that change. Huge change is coming as a result of Hydro now entering, because you have to find some synergy between this restructuring of the gas industry and the restructuring of the electricity industry, and you have to be careful that you don't have imbalances between the two. So it's a substantial challenge.

The Chair: Thank you very much, lady and gentlemen. We appreciate your submission.

ONTARIO PHARMACISTS' ASSOCIATION

The Chair: The next presenter is the Ontario Pharmacists' Association, Mr Struthers. Welcome, gentlemen.

Mr Peter Struthers: Good afternoon, Mr Chairman and members of the committee. My name is Peter Struthers. I'm the chair of the Ontario Pharmacists' Association. I'm also a community pharmacist. I practise in lovely Owen Sound. With me today are two pharmacist colleagues, two past chairmen, Mr Wayne Marigold and Mr David Malian.

I'd like to keep things fairly brief. It's Friday afternoon. I understand it's a good spot to be in if you're a figure skater, but you've probably been sitting here a long time. You have a copy of my speech as well as a copy of our presentation. I have some overhead slides that are condensed, just to speed things along, if you want to follow along.

In 1996, 1997 and here again today in 1998, we presented a document that's in your package: Strategies to Reduce Health Care Costs Through Pharmaceutical Care and Medication Management. These are strategies that the Ontario Pharmacists' Association has developed to reduce ODB expenditures by between $200 million and $400 million annually. These strategies can reduce drug wastage, inappropriate use of medication, unnecessary emergency visits, hospitalization, and sickness caused by inappropriate drug use and non-compliance.

The next page has a graph that breaks out by example the different strategies and approximately what the savings could be in each category.

It has been shown that inappropriate use of drugs and non-compliance is causing sickness in Ontarians and is estimated to cost $8 billion in Canada. Ontario being the largest province, the cost in Ontario would be approximately $4 billion.

OPA has some strategies to reduce those costs. Our strategies are real. Our results are achievable. But nothing has happened. If this government does not work with us to reduce inappropriate drug costs, we fear a number of things may happen: drug benefits to seniors and other ODB recipients may be reduced; the copayment to seniors and other ODB recipients may be increased; patients who need drug therapy may have to go without; hospitalization will increase; and the crisis in emergency rooms across Ontario will escalate.

We know this government wants to save health care dollars and protect the health and quality of life for the people of Ontario. The ODB budget forecast does have some appropriate growth numbers in it. Everybody knows that hospitals are closing and health care is restructuring, and as care shifts from hospitals to primary care, to community care, it's natural that more drugs will be used. Also, the number of recipients on ODB is increasing. Like it or not, we're all getting older, and more and more people are entering the ODB program. ODB expenditures will also increase as hospitals close, but they do save dollars in other health care arenas.

But there is inappropriate growth in the ODB. There is growing utilization of high-cost drugs where more cost-effective therapies are available, and millions of dollars of medication is wasted, flushed down the toilet every year. Nothing has been done to curb the use of high-cost drugs, decrease wastage and improve compliance.

The good news is that pharmacists make a difference. Every day in the private sector we control costs and improve health. Approximately a year ago, we launched a managed medication use program. MMUP, as we like to call it, has been sent to all MPPs, as well as to private sector payers, local municipalities and others. In this program we define how we can help control costs and improve health.

In the former municipality of Metro Toronto, we implemented one portion of the MMUP program, a trial prescription program. Essentially, a trial prescription program is when a patient gets a seven-day therapy of medication, they try it for that period and at day six the pharmacist calls the patient to see if they're tolerating it well. If things are going fine and the patient isn't having side-effects from the drug, the balance of the prescription is dispensed. If the patient is having some side-effects or the drug is not working as intended, the drug is then stopped and another course of action is taken. The pharmacist may call the physician to suggest another therapy or the patient may go back to see the physician for another therapy. This helps save dollars because the balance of the prescription, which normally would have been thrown out, is not wasted. In Metro Toronto there were 13,000 employees and 1,200 pharmacies involved in this trial prescription program. Tens of thousands of dollars were saved, and there was an improvement in health of many of the employees involved.

It has been shown from early data that there is a 500% return on investment in pharmacy services. Every dollar spent in pharmacy services returns a $5 saving in drug costs. If this trial prescription program were started for the ODB program, it is estimated that they could save up to $50 million.

Another example that happened in Metro was a medication review. Employees were being treated with an expensive drug called Losec, which I believe is the number one drug in the ODB program. Through consultation with the pharmacist, it was determined whether that drug was appropriate, and in cases where it was not appropriate the patient was given a new therapy that included an antibiotic and an anti-ulcer drug that eradicated a bacterium that causes ulcers. These patients were able to get off that drug completely. Obviously, this improved the health of those patients. As well, it was estimated it would save $1,000 per employee per year. A similar "wellness" program, which is a term we like to use, in the ODB program could improve the health and quality of life of thousands of seniors and other ODB recipients, and save tens of millions of dollars annually.

Pharmacists add value. Clinical evidence documents the value of pharmacist counselling and interventions. They reduce health care utilization and costs, they prevent emergency room visits and hospitalization, and they improve the quality of life. Just a short example that happened in my own community pharmacy of a couple of days ago: A patient was prescribed a drug that interacted with her Coumadin or Warfarin, which is a blood thinner. The physician failed to recognize that interaction, and if that patient had taken that, the Coumadin levels could have gone up and she could have ended up bleeding and in a hospital. So we called the physician, had some lab tests ordered and had the drug changed so that interaction would not occur. That could potentially have saved thousands of dollars and a hospital visit.

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A 1993 study by the Canadian Pharmaceutical Association showed that the annual savings from pharmacists' interventions was $338 million, or $64,000 per pharmacy. A similar study in Essex county showed savings of $47 per intervention. An investment in pharmacy services is a good investment. The next slide is a breakdown of the savings that were noted in the Canadian Pharmaceutical Association study.

The government has recognized that pharmacists are key primary care providers. We are in every community. We are patients' first contact. We provide triage. We talk to the patients about their poison ivy, about their cold medication, about their high blood pressure medication. We are helping patients help themselves. In essence, the government has 2,500 primary care centres throughout Ontario. They're called your local drugstores.

To remind you what pharmacists are doing, we're managing medication, identifying and resolving medication use problems, educating patients, consulting with other health care providers, providing self-care consultation, providing non-prescription drug counselling, performing disease management reviews, doing home visits, making specialty and sterile compounds, aiding in smoking cessation and providing other lifestyle counselling.

Ontarians have told us that they want two things. One is to maintain the quality of our health care system and the second is to end the current funding-driven crisis.

Hundreds of millions of dollars can be saved with program improvements, cost-saving measures and an expanded role for pharmacists. As we see it, the government has three choices; They can do nothing; they can set an artificially low ODB budget and watch it go over the top; they can take a Band-Aid approach and cut here and slash there.

As a health care professional, one of the first things we learn is to determine what is the root cause of the problem and to cure that cause, not to just mask symptoms. What we would like you to do is to attack the problem. Help us help you determine the root causes of the problems in ODB so we can solve this and move it forward.

The Chair: Thank you very much, Mr Struthers. We have approximately six and a half minutes per caucus.

Mr Kwinter: Thank you very much for your presentation. I'm just curious. I listened with interest to your whole proposal and I really found that it was all feel-good kind of stuff, sensible kinds of things. I don't think anyone can quarrel with it. The question I have for is that on one of your pages — they're not numbered so I can't tell you which one is it — it says that you have a strategy and that your strategy is real and that your results are achievable but nothing has happened. Why is that? I accept the strategies. I think you're absolutely right, that you are the first-line provider and that you do all these things. My question is, why have they not been accepted?

Mr Struthers: We feel that it has not been a priority for the Ministry of Health. We have some good relationships with the ministry and we been discussing some of these programs but, for example, the trial prescription program we have been discussing hasn't risen to the top of the ministry's priorities. Jim Wilson, the former Minister of Health, said that he was interested in the trial prescription program but other priorities have come up. We feel this should be a priority. There needs to be a political will from the politicians to make these types of programs work.

Mr David Malian: If I can just add to that, this strategy to reduce health care cost through pharmaceutical care and management has been proposed to this committee three times. It's one of the reasons why myself and Wayne Marigold, who are past chairs, presented this to this committee last year and the year before. It is a good question that you're asking and that's why we're here also. We're proposing it a third time. We think it's very, very important. If the government takes a look at these strategies, they can help save the Ontario drug benefit program.

Mr Kwinter: What are the cost implications to the government for doing this?

Mr Struthers: There would be costs involved in setting that up — I'll use the example of a trial prescription program — through the Ontario drug benefit network. But it's an investment. The initial cost is more than absorbed within the first year by the time you consider the savings that would occur from drugs that aren't flushed, aren't thrown away because someone's tried it for a week and it hasn't agree with them.

Mr Wayne Marigold: If I could just add a comment to that, it has been shown in other provinces and in a number of studies that between 40% and 45% of patients do not come back after the seventh day. We don't know exactly why, but we do know that between 40% and 45% of those patients never get more than a seven-day supply. As part of the program, it's not only dispensing the first seven days and then the balance of the prescription; it's the pharmacist calling the patient perhaps every 30 days or so to ensure they're actually complying with the medication. As you know, compliance is a major problem; 50% of patients don't take their medications properly. The pharmacists calls, ensures that medication is being taken properly, can detect if there are any problems and then get involved with the discussion with the physician.

We are involved in a study in Peterborough. It's called the ORTAP study, the Ontario Round Table on Appropri-

ate Prescribing. The ministry is in fact one of the participants. We are studying a trial prescription program as well as some other aspects and we hope to have some results probably this summer. The ministry is involved in that process. We want to determine why people don't come back for the balance of the prescription. I don't believe the actual investment is significant when you look at what the rate of return would be for the ministry.

Mr Kwinter: My pharmacist has a computer program where he knows exactly what medication has been dispensed, everything about it. Is that universal among your 2,500 members?

Mr Malian: That is universal among the 2,500 pharmacies, but it's universal for the Ontario drug benefit program. Each different patient, if they're not part of the Ontario drug benefit program, may have third-party insurance where that may not be cross-interlinked. Hopefully, that will come about. But yes, pharmacists can look at whether patients have double-doctored or there are interactions between two medications for a patient.

Mr Kwinter: I assume that must be a pretty effective control, compared to what it used to be, and that has probably addressed many of the problems you've identified.

Mr Struthers: Medications are becoming more and more powerful, if you will, and it's important to have those linkages and be able to provide patients with the best care by knowing exactly what they're taking and when they're taking it, following their compliance. Technology has helped pharmacists, as it has probably helped all professions, in that.

Mr Kwinter: In the past, your organization has appeared before this committee and raised the issue of dispensing fees. Is that an issue any more or is that resolved?

Mr Marigold: I'll comment on that. It is an issue. We believe that for the type of service we provide, pharmacists should be adequately compensated and we are in discussions with the ministry about that. There are different ways to compensate. You're referring specifically to dispensing fees. There are alternative ways to compensate pharmacists, depending on the type of service they provide, and I think that's part of what our discussions are with the Ministry of Health at this point currently. I'm not sure what the committee's called, but it's a committee that meets on a fairly regular basis with the ministry officials.

Mr Malian: If I can add to that, just so that you notice, the hesitation is that prior to Bill 126 we had the legislative authority to negotiate dispensing fees. We do not have that now. We are going to try to work with the Ministry of Health in looking at fees in general and not just the dispensing fee per se. We're looking at cognitive fees. Filling a prescription is not only what a pharmacist does.

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Ms Churley: You in fact have mentioned what I was going to mention, Bill 126 and the impact it's had. Before I ask my question I want to just add to your list of what pharmacists are doing and take this opportunity to tell people about pharmacists in my riding of Riverdale. My constituency office has a very good relationship with pharmacies throughout the riding, and I have to tell you that they've been fabulous. They have been really good. We call some of the pharmacists from time to time: "We've got a very poor person who doesn't have a plan and is in desperate need of drugs." They will go out of their way to help. We even had Mr Lee, a pharmacist in one of the stores in my riding, offer to buy a plane ticket this year to get a man back to BC, which was home, who didn't have a way back. I just want to say that I think many pharmacies are very community-oriented and very involved in the problems that exist in communities.

Having said that, as to the program Mr Kwinter mentioned, I remember it was our government that worked with the pharmacies, that brought that in. It obviously needs expansion, but it started with a lot of the problems we're talking about today and the beginning of a process to address some of those.

What I want to ask you about is generic drugs. You bring that up in one of your documents, British Columbia's plan to fund the low-cost alternatives. I would assume you're recommending to the government here that this province do the same, that it would make a big difference in the cost.

Mr Malian: Are you referring to generic substitution?

Ms Churley: Yes, I am.

Mr Malian: In Ontario we do have generic substitution. We don't have reference-based pricing, as you were referring to in British Columbia. What we're looking at with generic substitution is the expansion of it, making sure that at all opportunities where a generic can be substituted, the pharmacist is legally obligated to do that. We encourage that because it can help reduce costs in the system.

Ms Churley: British Columbia is the only province with that plan, right?

Mr Marigold: The reference-based pricing?

Ms Churley: Yes. Is your opinion that the reason other provinces are not doing that is pressure from the brand names or what?

Mr Malian: I think we're looking at just one issue of a drug cost, and that's maybe where we need to change our focus. I think BC has looked at it and said, "We're just going to look at the cost of a drug and we're going to decide what cost we're going to pay as a government." What we're suggesting is that we cannot just look at the cost of a tablet per se. You need to look at the whole health care costs involved in that, and that's where pharmacists become involved. It's not just the dispensing of a lower-cost alternative. At some point we're going to continue to dispense those low-costs but the claims are still going to get higher and higher because more seniors are joining the Ontario drug benefit program.

What we're asking is to look at issues of generic substitution, but with that look at issues of wastage, like trial prescriptions, look at issues of wellness programs, smoking cessation programs, that pharmacists, who are that primary care provider, can participate in and actually initiate for patients. We're trying to look at it all. If you

look at it just focusing on one drug cost, it's very similar to the slash and —

Mr Struthers: As I said earlier, it's a little bit of a Band-Aid approach. If drugs were prescribed appropriately to begin with, there'd really be no reason for reference-based pricing.

Ms Churley: So it's a holistic approach. You can't just take one piece out and fix the problem; you have to tackle all of these.

Mr Struthers: Yes. The reference-based pricing is a bit like a Band-Aid. It maybe has some short-term gains but long-term pains.

Ms Churley: So it would help right now. Given the other pieces you're suggesting, if you can't get any government to move forward on all the pieces, that would help.

Mr Struthers: Again, it's what I would consider a Band-Aid approach. The whole package is what we're looking at. Reference-based pricing doesn't help if the medication ends up being thrown out because the patient doesn't use it. You have to look at everything; everything's tied to everything.

Mr Malian: There are patients who require a higher-cost drug clinically, and what reference-based pricing is going to do is force that patient to pay for it. I'm not so sure that's a good idea, if that patient has to make that decision, or that senior has to make that decision: "That higher-cost drug is what I need and I have to pay for it."

Mr Baird: I want to thank you for your presentation. I find it very interesting and I want to tell you why. We've heard a lot of presenters bring forward various ideas and suggestions. Inevitably, they always suggest to the committee that if we would just give them an extra half-billion dollars they could explain how much money we could save. Yours is different. You come forward with, "Here is how you can save half a billion dollars, but you don't have to give us any more money," so right from the start I was very intrigued by it.

There are two areas I wanted to discuss with you. The issue of trial prescription is one that I have heard some of late. I wonder if you would explain to me how this would work with respect to your dispensing fees if you had to do it twice after seven days. I was interested in the 45% who didn't come and pick it up after seven days. It's curious, and I just wondered, if we were to implement such a plan, how would that work? How would you be compensated for that, or are the savings on the drug costs themselves, be they generic or non-generic, commensurate with a double compensation on your part?

Mr Marigold: There are a number of different ways in which pharmacists can be compensated, and that's one of the reasons we want to work with the ministry and look at the various options. There is a tremendous saving in the cost of the medication. You can share the saving. You can pay a second fee. There is a variety of different ways of doing it.

In all other jurisdictions, all other provinces, there is a second fee, but we're not suggesting that's the only way it can happen here. Let's take a look at it, see where the savings are, and if we can each share in the savings — because it takes a lot more time for a pharmacist to get involved in the second fill and phoning for the compliance, monitoring etc. It's a win-win for everybody. The patient wins, the pharmacist wins and the government wins, so we want to talk to the ministry in detail about some of the options available to us.

Mr Baird: In your pie chart you mentioned savings of \$27 million to \$45 million. Have you done a model in terms of that? Obviously, side by side there are savings and new costs. The difference is that you don't make the investment and get the savings down the road. Have you done a model? Is there something you might be able to provide to us?

Mr Marigold: Those numbers are sort of the net saving, including compensation for pharmacists. I'm sure that, if necessary, we can provide you with some detail; I think the ministry already has some information from us on that. It is a net savings. To model it is very difficult, because you have to make a number of assumptions. Are you going to include all drugs or just certain drugs? Not all classes of drugs are really conducive for a trial prescription. You're not going to do it on an antibiotic, which is normally a 10-day supply, or Tylenol possibly is another one. Quite often it's cardiovascular drugs, something for high blood pressure, what are called beta blockers. There is a variety of therapeutic categories where it's more useful to do that, so we've made a number of assumptions using those categories, did some modelling and came up with potential savings of between \$27 million and \$45 million, and that includes compensating pharmacists appropriately.

Mr Baird: The difference again, to our benefit, is that the investment and the saving happen at the same time. It's not invest now and get the savings in 10 years. That's why it interests me. That's why I think it has value.

Mr Marigold: We don't need half a billion; we'll take \$1 billion. That will be fine.

Mr Wettlaufer: Gentlemen, I'd like to talk a little about this MMUP. We've heard earlier today, and we've heard again from you, about the amount of waste involved in pharmaceutical products, particularly where there have been side-effects. I would like to know what cooperation you had from the physicians in this program.

Mr Struthers: We have a very good relationship with the Ontario Medical Association and we have been working with them on the trial prescription programs. At the community level, it's really done on a one-to-one basis. It's the pharmacist talking to the patients, seeing if they're interested in it, the pharmacist talking to the local community doctors, explaining the program to them. On a broader spectrum, we have a good relationship with OMA and have been discussing with them about trial prescriptions, and they are certainly as interested in seeing reduced usage and utlization of drugs as we are.

Mr Wettlaufer: So there was no reticence on the part of the local doctors that you were interfering with their patients or anything like that?

Mr Malian: Not in the MMUP and not in the ORTAP program, where the OMA and the ministry have both been involved. The cooperation of physicians is very important, but the relationships that pharmacists have developed at the community level have been very good.

Mr Wettlaufer: In spite of that, you say you haven't had the cooperation from the ministry that you would have liked?

Mr Malian: We have proposed trial prescriptions — I believe this is the third year I've sat in front of this committee about trial prescriptions. As I think Wayne or Peter mentioned, the former Minister of Health, Mr Wilson, has said, "We have to do it," and we're waiting to do it. Our people are ready. We're ready to sit down with the ministry. I guess that's why we're here today, to say we're ready. I don't know what it takes to get the government involved in proposing a trial prescription program here in Ontario, but we're here, we've been waiting for about three years and we're ready to go. We're willing to look at all types of compensation. We're not here to tell you that we want to be compensated in such and such a way. We want to work with the ministry on this.

Mr Wettlaufer: If the minister is willing to do this, where do you think the roadblock is?

Mr Malian: I don't know.

The Chair: Thank you very much, gentlemen, for your time and for your presentation.

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DELTA ENGINEERING

The Chair: The final presentation is from Delta Engineering, Mr Jeff White, president, Mr Jim Durrell, vice-president. Gentlemen, thank you very much for being here.

Mr Jeff White: In consideration of the fact that it's Friday, that it's after 4 o'clock and it's also the 13th of the month, I sat outside and rewrote many, many pages of remarks.

The Chair: Let me explain to the committee that Mr White is from Ottawa and in Ottawa no one works on Friday afternoon. Is that the point you're trying to make? Except at city hall in Ottawa, where Mr Durrell was the very competent mayor for a number of years, at which time they went to about 3 o'clock.

Mr White: Actually, when you get into the habit of working seven days a week, you don't know if it's the 13th, you don't know if it's Friday and you sure as hell don't know that it's 4:30 in the afternoon. But taking that all into account, ladies and gentlemen, let me just give you some background and why I'm here.

I am an engineer, I am an entrepreneur, I'm a business owner and I've been in business for 35 years. In speaking to the forthcoming budget, what I really want to say in the most generic sense but the most emphatic sense possible is that we don't want anything from the government that you aren't doing now.

In order of priorities, it's no different from what we face in business when we're in trouble. You cut the bleeding, you go get some work and you get the bloody stuff done. That's the only way to solve the problem in a business that's in trouble. You may lose some hearts and minds on the way, but that's basically the circumstance. Cut the costs of government, eliminate the deficit in the short term and reduce the debt in the long term in such a fashion that shows at least some element of sophistication, and then we can cut the taxes.

Most of my business, by the way, is outside this province. I'll deal with that in a minute, but I want you to think about this comment: This is the toughest province to do business in. It is not easy to do business in Ontario. It's much easier — this is going to floor you — in the provinces of Saskatchewan, Alberta, and certainly, as it was yesterday, with the province of New Brunswick, and certainly in the United States.

My American colleagues run business overheads at about 50% to 60% of ours in comparative dollars. Where we pay $600, $700 for the lease of the same vehicle in real terms, they are paying $300 for a lease. Interest rates are even lower, in spite of the fact that the general ARM rates in the United States have been recently a little higher, but when you come down to buy a General Motors truck or something on a lease basis here we're still paying 10%. In the United States you'd get lynched for a figure like that.

We are taxed to the limit. Everybody knows this. You're hearing what you've heard before, but I thought I'd come as a small to medium-sized business man and confirm it while I had nothing to do on my Friday.

We spoke before to the business occupancy tax, which is an unfair, inequitable tax. We speak of the inequitable aspect of property taxes on business, which are much higher than any other business, and yet as a business we do have rights. The term "corporation" means "body" and we're supposed to be treated with the same rights as the individual, yet it's assumed that we pay taxes. We pay capital taxes, we pay capital gains. We're prepared to go along with this as long as you stay the course with respect to where we are vis-à-vis the deficit and the debt.

What you can do, with some sophistication and with some help — and I can't help you solve all your problems in 15 minutes on a Friday afternoon at 4:30 — is create the right business climate. Have you ever seen a set of books of an American corporation? They're so darned simple compared to what we have to go through, and we don't see any change in the legal profession, the government or anything else in just simplifying being a corporation.

Compare the taxation levels. I won't even get into that. You see it on television all the time. The Americans are going down and we're going the other way. We have the right honourable — or the right honourable to be, so he hopes — minister of smoke and mirrors in Ottawa who raids the UI fund, who shorts the provinces unilaterally, and all at our expense in his run for the prime ministership.

One thing I'd like you to look at. In the United States, if you invest in a corporation, take the risk, the longer that money is in place, the lower the rate of taxation. It's an

aged investment. In this country, if you invest for five minutes or five years, you get the same treatment. That could be an incentive, just as an example. Aged investment is here to stay and certainly it is attractive across the border.

I was born in Quebec and brought up in British Columbia, so I know what nice scenery is, and I can tell you, I choose to live in Ontario, yet most of my business is in the United States. There was a period of time here not that long ago that every week I looked at saying, "Should we move our damned business to the United States?" We're still here, we're prepared to stay the course with you.

I think the government can avoid vested interest payout of cash, but I think with some sophistication you can develop incentives for research and development and for all sorts of programs, like I said, in aged investment and so on.

The waste in federal government infrastructures is enormous. The waste on the provincial side — I have specific knowledge of this; if you want to find out, I'm prepared to spend the time and give you details — runs in the range of hundreds of millions of dollars. I'm talking about over the past 10, 12 years in what we've seen in the building of water treatment plants, sewage treatment plants, sewer lines, highways and so on. I have specific knowledge of this because this is my business and I can tell you it's in the range of hundreds of millions of dollars. I can also tell you on personal experience and being involved on a day-to-day basis currently that even in the regional municipality of Ottawa-Carleton the wastage is in the range of tens of millions of dollars, and it's the same system. We have an army of bureaucrats out there saving us from ourselves. They are running in spite of who is the government, who is elected.

When Mr Rae was the Premier of this province, look at the conniptions he went through. Again, specifically involved with Mr Rae and the Minster of the Environment, I can honestly tell you that in spite of the instructions they gave they were totally ignored, because the bureaucracy just said, "We're going to outlast these guys," and they're going to outlast everybody in this room. That's the attitude. That's not only the attitude on the federal side — if you live in Ottawa you have to have a strong heart — it's on the provincial side and it sure as hell is on the bloody municipal side.

By cancelling infrastructure funding recently, this government did the people of this province a great favour. You fired a hell of a blast at my profession, the engineering profession, but you can't, not at my age, talk out of both sides of our mouth. The closer you get to your Maker, you start to get a little straighter in your language and your thought. The simple fact of the matter is that the funding of these projects from Ottawa — I was talking about the 85% funding of water treatment plants, sewage treatment plants — unbelievable. Outdated technologies, overcharged, overbuilt. Where you could have one treatment plant here that could supply several communities around by running a pipeline, the next thing you know the government gives money to put one here and one here and one here and they're all 80% oversized. That's not an exaggeration.

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Look at the water treatment plant in the town of Plantagenet, for example. It has five times the capacity it needs, paid for by this government. Unbelievable, and I have to say with some shame, my own profession involved in the whole charade, filling their pockets at taxpayers' expense.

That has ended. You've done us all a favour. I can't speak out of both sides of my mouth. That was one of the most important things you did. There are all kinds of municipalities out there waiting for you to start funding these projects again. They're going to delay their infrastructure in hopes that you'll do it. For God's sake, don't. Let them fund it themselves. Let them find their way around.

There are two assumptions of the government and charities, in my view from 35 years in business, and that is that corporations are all awash with cash. If you speak to very high-level banking officials, they'll tell you that less than 3% of all corporations that are functioning and meeting a payroll every two weeks or every week or whatever it is run 12 months a year with a cash balance. The rest of us borrow, so when we get hit broadside with a tax, even the $50 corporate fee, ma'am, that we were given a few years ago, which was one of the things I spent most of the money — it was the greatest waste of money in my whole life, fighting that one. I can honestly tell you, the assumption that we're awash with cash and can just continue to absorb this is wrong, if we're going to employ.

Let me put a formula in front of you. In the last two years, we've doubled our employees because of innovative technology that we've finally brought to the market after 20 years of sacrifice, work and investment, without government help of any kind. Second, we're about to increase 400% in the next 13 months, which means we will double our employees again, and it's all because of work outside this province. I was on my way to Florida next Tuesday — North Carolina, to a pig farm, to be exact — and I got a call from New Brunswick. I have to go there because finally, after four years of hard work, it looks like we've liberated some money out of a major corporation in New Brunswick. You can guess who they are on at least one hand; there's not that many in New Brunswick. But they're moving.

This cash surplus circumstance in which we find ourselves when we get assessed is coming out of borrowing. We have to go to the bank when we get hit with something else. The payroll taxes: I can't afford to go out to hire somebody at the lowest level of skill and talent, at the lowest level, for the minimum wage or more. We pay nobody in our company minimum wage; I think the minimum salary in our company is $31,000 a year. Because we are professionals, I guess that's not so bad. But the circumstance is that we cannot afford to hire people on the lowest echelon, because when you add the payroll taxes, it's a $12 to $15-an-hour effort, and it's just unreasonable, this sort of circumstance.

The other thing that's interesting here — I'd like to give you a specific example. Recently the police officers' pension fund invested several millions of dollars in our company because of our technology. They did a due diligence, and part of that due diligence was to call a bureaucrat in the state of Maine from the department of environmental protection. He unabashedly said that, to everybody who comes in the door, they're recommending our wastewater treatment technology, to which the response from the investor was, "That's a little brash for a bureaucrat, isn't it?" He said: "Look, this technology is so advanced that it's good for the environment, it's good for the local economy and it sure as hell is good for the people in the state of Maine. Unless somebody comes up with something better, that's what we're going to tell anybody who comes in the door."

In this province, people I have worked with personally for 20 years spend half their energy avoiding standing behind something that's good, standing behind it to make it go, standing behind it because it just might be good for somebody. They spend their time avoiding: "Oh, we could not be seen to be supporting something over something else," not because it's better or worse or anything else. That's an entirely different attitude, an entirely different circumstance, and that is a source of great frustration for us.

The people of Ontario want health. Certainly as we get older we want our health. That's the most important thing, more than money. We want good education for our children. We can't find the employees we need. I said we're going to double; I don't know where the hell we're going to get them. We're going to end up being like the beer barons. We're going to start fighting for market share. Do you know what I'm considering now? To hire an employee and get them to stay with me, I'm considering, over a period of five years, 10 years, 15 years, 20 years, putting up the tuition for their children at university. How many companies have done that? We're desperate. I'm not asking you for money to do that; I just want you to know what the heck we're doing with this sort of circumstance.

The third thing we want is the bureaucracies and the governments to match with us our social consciences.

The last thing, of course, is the environment as it relates to our personal health. The incidence of cancer is that it's doubling every 15 years. Louis Pasteur a hundred years ago said we drink 90% of our diseases. Our drinking water and our sewage treatment are out of date. Our standards are out of date and we don't see any leadership or movement. Everybody's trying to avoid being put on the spot. We're so busy doing that, we're not seeing the progress that we should see.

This is Ontario. I was born in Quebec, I was brought up in BC, I was in the military. I've lived all over the country; I work all over the country. But I choose to be here. This is Ontario, the engine of this country's economy. Restructure these major areas, these four areas I've just referred to. Restructure them and get people with leadership into them and people who are willing to stand up and be counted, and reward them accordingly. Take the leadership and eliminate the duplication. You've heard this before, but it's not happening.

What's the expression from the Bible? Render unto Caesar what is Caesar's; render unto the Lord — well, let's divide the thing. I see in Ottawa the federal government is dumping on the provincial government. My God almighty, we are Canadians. We have two French-Canadians right now fighting over how to divide up the country, M. Chrétien and M. Bouchard. How the hell did we get into a situation like this? Ask Mr Chrétien where he's going to live if Quebec separates. That's a good question. He's sure as hell not going to stay in Ottawa. Restructure these major areas, as I said, eliminate the duplication, provide the leadership that we need to eliminate provincial barriers.

Workers' compensation: We pay it here; we pay it there. When I go to New Hampshire, I've got to buy it again. I pay three, four, five times what somebody who runs a nice corner store does, with the same risks. The Workers' Compensation Board in Ontario — maybe the waters of the north will rise and just flood them out downtown. It's something else. It's just frustrating. Ontario is the only province with any clout, and money must be put in the budget and time and people must be brought together in carrying the message to Quebec. Ontario's the only one to do it.

My experience in this country, even with my friend Ralph Klein, who I knew as the mayor of Calgary when we worked on the Calgary winter Olympics — I can tell you right now, the farther you get away from the Quebec-Ontario border, the less understanding there is about what this country is all about. The farther away you get, the less the understanding. It is absolutely essential that the government take the leadership circumstance in that regard.

You're on the right track. From the government's point of view — and I'm not as partisan as I may sound. I'm just trying to follow what I do. If I ran my business like the government has been run for the last several years, we'd be out of business. It's as simple as that. So carrying that message back to you, maybe you think I'm partisan, but I'm really not. You are on the right track. I have to suggest to you, your PR is lousy. You're not getting the message out to the people of this province. Get out there. Don't wait for us to come to you here. Spend some money on that; put it in the budget.

And would you do me a favour? Speed up the restructuring of the regional municipality of Ottawa-Carleton. God help us.

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The Chair: We have about four and a half minutes per caucus, starting with Ms Churley.

Ms Churley: Did this government do anything about that $50 annual filing fee?

Mr White: Yes, ma'am.

Ms Churley: What did they do? Did they reduce it?

Mr White: First of all they cancelled it.

Ms Churley: Then what happened? I remember that very well. I'll never forget it.

Mr White: I guess I spent more time fighting that thing because of the principle of it.

Ms Churley: Yes, I know.

Mr White: The information is already in the government anyway, in your corporate filing.

Ms Churley: So what did they do about it?

Mr White: You know what happened to me? This is really going to kill you. I put in a proposal to the Koreans at Samsung in Seoul for $3 million. I woke up one day when the Koreans said, "We checked you out" —they're very thorough at doing this, your financial issues and so on —and found out I was no longer incorporated. I didn't even know about it. I lost the job, although I was US$2.5 million lower than my French competitor.

Ms Churley: I must actually be a masochist to ask you a question about that.

Mr White: Oh, don't.

Ms Churley: As the minister, I remember it well. There were lots of problems associated with that. Let's just stop here.

Mr White: It's not worth any more than the $50 that was charged.

Mr Baird: We'll give you some of our time if you'd actually like to continue.

Ms Churley: Actually, no, I want to get back to these guys. You've given them some advice today. I don't agree, not surprisingly, with some of the advice you've given. I don't believe they are on the right track. We would disagree about that.

But I did want to ask you a serious question about health care, because you mentioned it's important. You're right, as we get older it becomes more important, as we see our parents getting older and sicker, and we're getting there. You talked about lower taxes in the United States. As you know, it varies from state to state; some are more comparable with ours than others. I have a brother-in-law who is a doctor in the United States, and I spend some time there. We well know that there are millions of people in the United States who don't have health coverage. Of course, as you know, one of the reasons why our taxes are higher here is that we believe in coverage for everybody, no matter what their income level is, which is a very important principle.

That's the kind of thing we have to balance. I think we all agree on getting rid of waste. We would disagree on what's waste, maybe, and who should be funded and all of that stuff, but there are certain principles we adhere to. I'd just like your comments on that, because you have so much good to say about the climate for business in the States, but on the other hand there are some elements to our society that we pay for that they don't have, which is also very important.

Mr White: I have to say this to you. When my mother died of Hodgkin's disease and they brought in the British Columbia health insurance plan back in the 1950s, it saved my father's savings. I am a medicare supporter. I think the Americans are totally on the wrong track, but their problem is that it wasn't invented there, so they're damned if they're going to copy anybody. That's a very sad circumstance, that a country with the resources they have doesn't take care of that fundamental right. Sometimes I look at the medical care system and think we have a tendency, as engineers do, of treating symptoms rather than problems.

I have two very serious diseases. It doesn't look like it — I'm 60 years old this year — but I'm dealing with them well. One of them is definitely life-threatening, but the circumstance is that I'm taking steps to do something about it. I've lost 50 pounds since May; I'm pedalling my bicycle in spite of the weather and so on. But I think maybe we have to take a little different approach than we've taken traditionally.

Having spent a lot of time over the last few years in the hospitals at first hand, I noticed that the people standing around drinking coffee and smoking were the same damned people every time. All of a sudden, they were all gone. You know something? The service hasn't changed a damned bit, not a bit. The same hardworking medical staff are still there doing their thing, even after hours.

We have a wonderful system, but it needs to be reorganized. I have two doctors immediately in my family. My brother is a doctor, my sister-in-law is a doctor, and I have to say to you that under the circumstances I don't think the medical profession is totally on the right track.

To confront the government is not the answer. They have to realize that you cannot milk a cow that is lying down. The cow that is the economy of Ontario has to be stood up, and then we'll deal with it. I would call upon the medical profession to work with the government, because once we solve these fundamental problems of deficit and debt, what do the people want? They want health care. The money is going to swing back towards that; it's going to necessarily, because we really do call the shots ultimately, over top of the bureaucracy and the fleeting presence of our politicians.

The discrepancy in the medical care circumstance is the nature of the beast in the United States. The Americans have to be viewed by people in this country and elsewhere in the world — and I don't like standing up having to defend somebody. The Americans, at the expense of their economy for a very long period of time, have managed to out-ante something that I thought was going to happen and that I was professionally trained to see, that ultimately we would have gone to war. I am a military officer in the navy, the Royal Military College and so on, and I was trained that ultimately we would go to way against the Russians. Well, we aren't going to war against the Russians. We've out-anted them. It isn't "we;" it's the Americans, and I think we should be appreciative of that. That's probably one of the reasons that discrepancy in the health care plans exist. Give them time, they'll come around to find out that the free enterprise system doesn't necessarily have the passion and the compassion that's necessary to make that system go.

I cannot agree with you if you are suggesting that is making the difference in the circumstances. The business climate there is tremendous right now.

The Chair: Sir, I have to interrupt you there and move on to the next caucus.

Mr Wettlaufer: Mr White, I really enjoyed your presentation today. You sounded like I did two and a half years ago, before I got into government.

I would like you at some point in your answer to describe your technology, the technology you use in your business. But before that, I am also interested in something you said about Plantagenet. Who made the design of the specs required in that water treatment plant? Was that provincial or was that municipal?

Mr White: Let me explain. When the plant was originally built, the concept was that it would supply several communities. If you speak to Monsieur Lalonde — I think he works for the Minister of Agriculture now as chief of staff. Monsieur Lalonde was the mayor. He will tell you the plant was built with every idea that it would be expanded to supply Wendover and the north Plantagenet township and so on.

The next thing you know, consultants are in there with funding behind them to build a separate plant in Wendover when this plant's sitting over here. It would have been $3 million, $4 million, $5 million cheaper to run a pipeline between the two. We looked at it specifically. It was unbelievable. Everybody wanted their own water treatment plant, irrespective of the economy.

Through some formula of expansion — we went through this, for example, in the town of Westport. Westport had 900 people at the turn of the century. When the current reeve was elected 27 years ago, there were 700 people; today there are 700 people. The town isn't growing, but the system had proposed, before we got involved in it, that this thing should be set up for a 100%, 200% or 300% expansion. Consequently, the approach and the budgets were set up for something they clearly didn't need. This went on all over the province.

Was it something I said, ma'am?

Mr Wettlaufer: Was that during the NDP administration, by chance?

Mr White: No, it was before that, actually. It was just the system that was in place.

Mr Baird: Be careful. The Liberals are still here.

Mr Wettlaufer: Mr Kwinter is still here.

Mr White: Pulling the funding rectified the problem. Now every municipality has to look to itself for the infrastructure it uses and enjoys.

I was talking to Mr Durrell today about transportation. We have somewhat of a fundamental difference. But there is a philosophy of economics that says when you have a lot of unit use of a system, like in the ski business or in the mass transportation business, what is the philosophy of support for mass transportation?

Personally, I think you should get the hell out of it. The fees should be raised — because this is one philosophy of economics — until the revenue levels off, irrespective of the ridership. But if you have to implant a certain way of life on people by saying. "You are going to darned well use mass transportation," then you start to worry about ridership.

My God, that's like steering the cow from the wrong end, as far as I'm concerned. I don't believe the provincial government, which should put a good highway system in place, which encourages the construction of automobiles not only for use locally but for export, at the same time pushing mass transportation and trying to affect the way we live.

I've lived in Houston, Texas. I can tell you, there's no mass transportation system in the world like that, or in Los Angeles, that would ever do the kind of job it does in European cities or even in the city of Toronto, just because of the way the city grew and was planned. It was a dissociated sort of metropolitan area.

Nevertheless, why should the taxpayers of Ontario support the regional municipality of Ottawa-Carleton in their mass transportation system? Why not raise the fares? It's still a hell of a good buy at three dollars compared to $1.85. I know that's not politically attractive, but I don't think the people who are going to ride the bus are the people who are going to vote for you anyway.

The Chair: I have to interrupt you, sir. First of all, we're supposed to ask the questions, but we are out of time for this caucus. I'll turn to the official opposition.

1650

Mr Kwinter: Thank you, Mr White. I quite enjoyed your presentation.

One of the things you commented on is that one of the restrictions you see is the availability of trained personnel. Given the fact that I am a member from Toronto and we have a huge multicultural community, one of the most common things I get are people who have emigrated to this country, who have been engineers in their own home countries, and they come here and they can't find any jobs. They are absolutely underemployed. I'm just wondering whether you've given any thought not just to that issue, but what would be your solution to resolving that problem you've identified, that you don't know where you are going to get your trained people from?

Mr White: If I can find somebody at this moment who is fluent in English and in Chinese or Japanese, I'd hire them in a minute if they were an engineer. I've already done that. I hired a Chinese engineer recently, a marine engineer with a tremendous amount of practical experience, and he was with me for four or five months. We broke him in, we were training him and everything else. Ultimately, my view was to go back into China with the Koreans and we'd do business, because our technology, which is in the wastewater treatment business, will work. It's economic and it's superb from a standard point of view. We are award winners. We just won the Governor General Schreyer award with it etc. I saw a place for this person, and then the bloody National Research Council hires him away with all kinds of promises. I predicted to this young man: "Don't do it. They'll dump you in a flash." That's exactly what they did. Eleven months later, he's on the street looking for a job and his pride will not let him come back.

One of the criteria we need for our engineers is not just education and qualification. We need experience; that

helps. If not, we'll train them. But if they have a second language, it is so absolutely important.

At the language lab at the Royal Military College, there is an expression in both English and French that says, literally translated, "You are worth as many men as languages you know." I have a Polish PhD. He's a research specialist and a mathematician. It's just a pleasure to work with him. He was cleaning bedpans at the Ottawa Civic Hospital. I couldn't afford him, but I hired him anyway. I said: "I can't pay you $50,000 a year. I can pay you $20,000, but that's better than cleaning bedpans." Now he's making his $50,000 a year.

The simple fact of the matter and my comment on it is that if they have the language and they have the experience — we are in a global economy; you've heard all these hackneyed expressions. I don't think there's any prejudice, certainly in my profession, in hiring people.

I just met with the Ministry of the Environment people, and the head man is not a native-born Canadian. The head approvals officers at the Ministry of Environment, Wilfred Ng, is Vietnamese. I have to say to you, we are the same. Canadian firms have a much easier time probably than anywhere in the world in hiring people who come from different cultures and speak different languages, but those languages are an asset. They are an asset in our business. I certainly hope, though, that I don't have to go into the circumstance of trying to recruit outside of Canada. I would rather have them have some of the experience within the country.

We have Polish; we have Spanish. For four years I looked for an engineer who wasn't totally mesmerized by computers and electronics. I needed a power transmission engineer. I went to the University of Saskatchewan, McGill. I couldn't find anybody. I grabbed a Peruvian engineer trained by Americans. He didn't have his left foot on the ground before I had him, because his brother worked for CARE Canada and I knew he was coming and we went after him. But we were without one for four years, because there is nobody who specializes — trained by the Americans in the big mines in Peru.

The Chair: Sir, I have to interrupt. We are out of time, but I would give you one more minute, if you'd be good enough to explain to the committee the nature of your technology.

Mr White: We're in the sewage treatment business. Many years ago, the ski industry in which I worked had serious environmental problems: winter climate, in which most sewage treatment plants don't work, the Sierra Club, and highly fluctuating loads, which means that any sewage treatment plant that was biological in nature didn't work. So we stepped back and said, "We've got cold weather; let's freeze it." It has turned out to be the best-performing sewage treatment facility, operating facilities now that we're building. We've built four plants now, two in Canada and two in the United States.

We won the Governor General Schreyer award for this technology, which is the award of excellence for engineering. We knocked off all the big firms, something I've wanted to do all my life. We won the Canadian advanced technology award for this technology. Now I've got to go to the Waldorf-Astoria on April 2 because we are one of the top 25 newsmakers in engineering and science in the United States.

The Chair: So what you're doing, in effect, is freeze-drying sewage.

Mr White: We're treating sewage just like ice beer, and it works.

The Chair: Thank you very much, Mr White, for coming in and for your presentation.

Members of the committee, we're adjourned until 9:30 on Monday next.

The committee adjourned at 1656.

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Published by the Legislative Assembly of Ontario

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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Monday 16 February 1998

Lundi 16 février 1998

The committee met at 0932 in room 151.

PRE-BUDGET CONSULTATIONS

SPARROW LAKE ALLIANCE VOICES FOR CHILDREN

The Chair (Mr Garry J Guzzo): Our first presenter this morning is Dr Paul Steinhauer, Voices for Children and the Sparrow Lake Alliance. Dr Steinhauer, please come forward. Thank you very much for coming. Welcome. We have 30 minutes for you to use as you see fit. Please proceed.

Dr Paul Steinhauer: Good morning, ladies and gentlemen. You have a rather extensive written brief from me, and I'm not going to insult you by reading it, so what I would like to do is, first of all introduce myself and my organizations a bit and then speak to some of the highlights of it. I'm hoping to leave about 15 minutes open to respond to any questions that you people have.

I'm well into my 36th year as a child psychiatrist in this province, and for most of these years I've been like a person on the bank of a mighty river with drowning bodies of children by the thousands going downstream, and really, along with my colleagues, doing our best to pluck out a few and give them mouth-to-mouth resuscitation. Sometimes we're able to do a great deal; other times we're getting at them too late with too little to offer.

All that time I knew we would never have and never be able to afford enough therapists for all the children in Ontario who are being abused, who are psychiatrically disturbed, who are delinquent, who are failing and dropping out of school, even if our therapies always worked, which we know, to be honest with you, they don't always. So in 1989 I changed the nature of my work. I decided the time had come to stop just treating that small minority who were able to be treated in my office and to try to go upstream and find out what was pushing so many of those kids into that river in the first place and to try to do something about it. Since then, I've cut my direct practice back by about 80%, from 33 hours a week to about seven hours a week, and the time that I've saved I'm using to work in the voluntary sector to keep more kids from getting into that river, through my work with Voices for Children and the Sparrow Lake Alliance.

As I speak to you today, I hope you will bear two things in mind. I sincerely hope that any of you who have children and grandchildren are blessed as I am with children and grandchildren who are healthy, competent, productive members of society, but I hope that, as you listen to me, you will bear in mind what it would be like if your children or grandchildren were among the one in four in Ontario who are neglected and abused and/or failing in school and are psychiatrically disturbed and/or on a one-way road to delinquency.

The second thing I'd like to ask you to think about as you listen to me is, what is this province going to be like in 15 to 20 years from now if one in four of our kids continues to grow up and enter into adult life with significant deficits in mental health, in competence, in literacy and numeracy, delinquent in behaviour and incapable of supporting themselves on a regular basis? What's that going to mean if we continue to mortgage the futures of one in four of our children and youth? What will it mean to the youth themselves, to their families, to the quality of our community life and to our workforce and economic productivity?

That having been said, I'd like to walk you through some of the high points of my brief. On page 2, which is the first page inside the cover, you'll find I've divided it up into four sections. I'll talk briefly about the two organizations I'm representing. Second, I'm going to give you a brief report card on the status of Ontario's and Canada's children. Third, I want to talk with you about what I call the Well Street index, a series of concrete, quantifiable indicators on the status of Ontario's children. Fourth, I'm going to leave you with some discussion and a few recommendations.

The two organizations that I represent, the Sparrow Lake Alliance and Voices for Children, are described on page 2 of my brief. I would just like to say at this point that both of them have Web sites. The Voices for Children Web site actually just last week won a medwatch best-of-the-Web award for one of the best health sites related to children anywhere on the web.

I would also like to draw your attention to the last paragraph on this page. Both of these organizations are non-political in the sense that they're not aligned with any political party; they're not against any political party. We know that each political party and all levels of government have among them members who realize how important it is to get more of our children off to a successful start. Our point is not to assign blame but to suggest solutions. It clearly takes a family to raise a child, but in this age of the

globalization of the economy and widespread downsizing, many families need a village and a community standing behind them in times of crisis if they're going to do so in a way that will allow their children to be successful.

If you turn to page 3, I have a report card on the status of Ontario's and Canada's children. The first item deals with the National Longitudinal Survey of Children and Youth, which was a survey the first stage of which was conducted in 1996 and dealt with almost 23,000 children and youth in every province and territory in the country. What it showed us is that 74% of our kids are turning out just fine. But 26% — and that goes up to 41% if they happen to be growing up in a mother-led single-parent family — are in trouble. They're in trouble academically and/or emotionally and/or behaviourally and/or socially.

We also know that positive parenting is probably the strongest preventive measure that we have for children who are living in at-risk environments, and there are a number of warning signs that the national longitudinal survey listed. I want you to just bear those in mind when I come around to talk later on about the specific recommendations I have for you.

The Ontario Child Health Study, the mental health survey and the report to the standing committee on social development, which is in Hansard as well as on the Web, are areas where you can get additional information if you want it.

If I move on to page 4, I go into the Well Street index, which is really trying to make the case for why improving the future of Ontario's children is such a good investment for the province. If kids do poorly, if they show decreased mental health, decreased competence and decreased productivity later in their adult life, we as a society are going to pay for that through the erosion of the quality of our community life and through the erosion of the productivity of our workforce. We're in real danger as a society in the future if we continue to waste the productivity of one in four of our kids.

0940

The work I'm presenting in this section of the brief is the work in progress of four organizations working together. They're listed towards the bottom of page 5: the social reporting project of the Centre for Studies of Children at Risk at McMaster University; the INTEGRA group, who are working specifically in the area of learning disabilities; the public health department of Scarborough; and my own organization, Voices for Children.

We have isolated 12 variables which are concrete, quantifiable indicators. We talk about what they mean, we talk about what the statistics are here in Ontario and we talk about what could be done to improve the situation. In some cases where we don't have specific Ontario statistics, we use Canadian statistics and then we indicate that. But the kinds of indicators of how well or how poorly kids are doing can be shown and measured in the percentage of low-birthweight babies that are born, and especially very low-birthweight babies, who have enormous initial medical costs, estimated between $100,000 and $200,000 in the first couple of years, and they remain prone to chronic illness, to learning problems, to social problems throughout their lives.

Second, the infant mortality rate, the number of babies that die within the first year of life — and I would just mention very briefly that the ones who die within the first month die usually because of congenital problems and extreme prematurity. However, the ones who die after that point die largely because of social reasons, because of the poor quality of parenting they receive.

Third, the waiting list for subsidized day care: The Vanier Institute of the Family just pointed out that the average Canadian family is now having to work 77 weeks a year just to pay its bills. When it comes to low-income families, they're having to work 83.6 weeks per year just to pay their bills. So the issue isn't just whether one parent should stay home; with figures like that, the issue is that many families have no choice. Statistics Canada has made it clear that if one parent in each family where two parents work were immediately to stay home, we would triple overnight the number of families below the low-income cutoff point.

Fourth, the percentage of children arriving in kindergarten not ready to learn — and this is the one statistic I'm going to be talking about that isn't readily available at this point. My colleagues at the social reporting project of the Centre for Studies of Children at Risk at McMaster are in the process of making this operational right now. How ready children are to learn, the will and skills that they bring to school as measured by kindergarten teachers, are both the best predictor of how well they're going to do and one of the strongest determinants of how well they're going to do in school.

If we wait until children get to school and if we have an estimated one in three — and that is not a precise figure. I've heard estimates up to 40%; I think probably one in three is more realistic — children arriving at school lacking the skills that are needed for successful learning and for behaving appropriately in class, we're greatly increasing both the risk of school failure and dropout and the risk of delinquency, because there is an escalating relationship that the more poorly children do in school, the more likely they are to get involved in aggressive behaviour, which gets them rejected, which gets them in trouble with teachers. The more anti-social their behaviour is, the more likely they are to do poorly in school; and the more poorly they do in school, the more likely their behaviour is to deteriorate.

The fifth index is the mental illness and teenage suicide rates. Almost one in five of our children back in 1989 met the criteria for at least one psychiatric disorder. Two thirds of those kids who had one psychiatric disorder had two or more disorders, and only one in six, even at that time, before the cutbacks that have gone on in children's mental health services, had received any treatment whatsoever over the previous six months.

The next item, and this is one that's increasing, is the rate of teenage births. When a teenager has a baby, that greatly increases the chance of both mother and child remaining chronically dependent. I don't know whether you people have been following the papers, but recently,

after a long period of decline, there has been a significant increase in teenage births. Invariably this is a sign of a baby having a baby and a child who is in no way equipped to meet the needs of that child, so that both child and mother are frequently in trouble.

This is particularly important in view of the mass of evidence that has been accumulating over the last 10 to 15 years that shows that the hard wiring of the brain, 90% of which occurs in the first two years after birth, is largely dependent upon the quality of care the child receives and the quality of the child's environment. In other words, it isn't just a matter of nature versus nurture any more. When infants are born, the parts of their brains that are responsible for sustaining life are already wired, but the parts of their brains that are responsible for things like thinking and feeling and behaviour have not yet been connected up. The cells are there but the connections haven't been made.

The evidence is indisputable at this point that within those first two years 90% of that hard wiring occurs. It will continue to be proved as time goes on that what that means very clearly is that we're going to have a lot of babies who are going to be brain-damaged if they are growing up in families that aren't able to provide the positive input, the sort of comforting and nurturing and cognitive stimulation they need, if at the same time they're in families that aren't able to protect them from the chronic conflict and violence that puts them in a state of constant hypervigilance and leaves them prone to excessive anxiety, excessive rage, excessive impulsivity and excessive learning problems for the rest of their lives. The quality of the environment in the first two years is the most important factor, other than genetics, to the quality of children and human beings we're going to have.

Next let's look at the high school dropout rate. The most recent correction I've seen from Statistics Canada suggests it's somewhat over 14%, if you take into account those who have dropped out who have dropped back in and graduate later. But look at the cost to society of high school dropouts. The Conference Board of Canada calculated that the nearly 137,000 Canadian youth who left school instead of graduating with the class of 1987, just in the year 1992, will cost society $1.7 billion due to lost taxes.

We also know that kids who drop out of school are far more likely to be unemployed and are far more likely to remain unemployed longer because their skills just aren't needed. We also know that if you look at the period between 1990 and 1996 and the new jobs being created, there has been a 26% increase in new jobs for people who have a post-secondary school education and there has been a 25% decrease in new jobs created for people who haven't graduated from high school.

As Robert Reich, the Harvard economist, has said, the most critical part, the one element that is unique about a nation is its workforce. How are you going to continue to have the productivity in the workforce if we continue to write off the potential of that significant group of young people?

The unemployment rate for teens and youth in their early 20s is very much related to education level. The number of teens and youth convicted of crimes — and while there's some artefact here, it's hard to get solid statistics on this one — is probably the best single measure of anti-social behaviour by teens and youth. The rate of risk-taking behaviours among teens and youth, including drug and alcohol abuse and dangerous sexual behaviours: We know that the earlier kids get hooked on drugs, the more likely they are to progress to more dangerous drugs, to use them more extensively and to spread to become involved in dealing and other criminal activities.

The incidence of confirmed allegations of child abuse: Reports of physical abuse have doubled over the last two years. This is a direct result of deteriorating social conditions, although some of it undoubtedly is due to greater reporting because of the greater prominence the issue has taken because of the recent series of inquests.

0950

Finally, there's the issue of the child poverty rate. This is a much more complex issue than is often understood. There's no doubt that increased exposure to poverty increases enormously pressure on all family members, particularly on parents, and because of the increased pressure, particularly when you add to that the decreases in subsidized housing and the decreases in support services, it isn't surprising that we're seeing increases in the rate of physical abuse which exceed the rate of increases in the rate of sexual abuse, which is more related to perversion that it is to external tensions. But what we know is that with these extra pressures the rates of child abuse, the rates of parental mental illness and the rates of family conflict and drug abuse are going up. That is the atmosphere in which our young children are being raised.

As far as discussion and recommendations are concerned, it's possible to use reliable, quantifiable figures to monitor how well or how poorly Ontario's children and youth are doing. If the government used such statistics of child wellbeing as they currently use indicators of economic wellbeing to monitor the adjustments of their policy, then outcomes for the future generation of Ontario's children would be significantly better.

Canadians are beginning to get the picture. On the top of page 10, I talk about an Environics poll which shows that people are getting the message that when it comes to the delinquency area, at least, prevention is both more effective and more efficient than just waiting until kids are confirmed delinquents and trying to punish them into being good.

When it comes to the question of recommendations, which begin on page 11, I've got a number of specific recommendations. You will see that these relate back to those figures on page 3 that relate to the warning signs that were given to us by the National Longitudinal Survey of Children and Youth.

There's lots we could do to cut down on the number of low-birthweight and very low-birthweight babies. There is

a great deal we could do to remove the systemic barriers that are causing far too many children to be abused in this province. In order to be more effective and more efficient in protecting Ontario children from neglect and abuse, we're going to have to do more than just pay lip-service to a little bit here and a little bit there. This is the worst-served group of children in the province and they're a group of children who are enormously damaged themselves and who have an enormously devastating effect, many of them at times, on the rest of the province.

The committee can make it possible for the Ministry of Community and Social Services to do its job properly with these children. The Ministry of Community and Social Services takes great pride in having brought in a prevention program which is based on a program in Hawaii that cut by 75% the rate of child abuse in high-risk mothers. However, they have so diluted that program in bringing it in, because of the lack of funding they had available to them, that it's going to cut down on the rate of neglect by a half and it's going to cut down on the rate of abuse by a third of the gains that were achieved in the Hawaii program. The thing you people have to ask yourselves is, are you content to reduce neglect half as much as you could and abuse a third as much as you could? It's really going to depend on you people more than on the Minister of Community and Social Services because these days social policy is being made by treasury boards and committees of economics and finance ministers.

Another way to reduce child abuse: There is a sterling panel that has been set up by the Minister of Community and Social Services — outstanding people. I haven't seen the results of their deliberations, but I know enough of the people on that panel and I trust them enough that if you make it possible for them to put into effect the changes they recommend, there will be fewer abused and badly neglected children in this province.

When it comes to recommendation 4, increasing the number of Ontario children ready to learn in kindergarten, the emphasis is, if we want kids to do better in school we will do more to achieve that goal by getting them ready for school before they arrive at school than we will by our tinkering with the educational system. The educational system needs improvement, but the major factor to either success or failure academically is the skills the children bring to school. I've suggested two ways this could be done: One is through accessible high-quality early childhood care and education, and the second, in recommendation 5, is in the renewal of funding for junior kindergartens across Ontario which have been eliminated in a third of our school districts since the current government took back its support for junior kindergarten.

Recommendation 6 talks about something that could be done in the schools. The experience in Tennessee was that if children in grades 1 to 3 were placed in very small classes and then put back in regular-sized classes, four years later, in grade 7, they were still ahead in all their major subjects. That's a time-limited intervention that can pay off very well.

Recommendation 7 has to do with the way you use your most experienced mental health professionals. The best way to use people like myself, or senior psychologists or senior social workers, is not to have us do one-to-one therapy in an office but to make us available to pass on what we know to day care providers, teachers and social workers who are dealing with kids in the community. That so-called multiplier effect is a far more effective and efficient way of doing things. However, both the Ministry of Health and the Ministry of Community and Social Services have responded to downsizing of their budgets by wanting to increase the amount of direct service and therefore they've cut back on funding for that kind of consultation. Use the most skilled people you have most effectively.

Finally, the downloading of costs to municipalities is widely expected to increase municipal responsibilities more than it will augment the resources. If this happens to lead to further cuts in badly needed social supports and services or to further user fees, particularly in the recreation area — and already, even before this latest series of cuts, more than 50% of poor families were giving as the reason that their children weren't involved in the supervised recreational programs that can be such a strong protective factor against delinquency the fact that they couldn't afford either the equipment or the entry fee.

There are specific things that can be done. I'm pleading with you people on behalf of the children and youth of this province, as someone who looks to the future of the province, to try to do what is possible to put the ministries that are responsible for delivering services for children in a position where they will be able to do a decent job to get more children off to the start they need.

The Chair: Thank you very much, doctor. I'm afraid we have only a minute or two remaining. Mr Pouliot, I was to start with the NDP caucus. You're going to have to be very brief.

Mr Gilles Pouliot (Lake Nipigon): I will indeed.

Good morning. Doctor, I have humbly sat here for 13 years. An excellent presentation: Yours is perfect and you bring forth the human dimension. It's substantiated, it's tabulated. I could have dispensed with the Well Street index. I'm more familiar with the other indices. I certainly like that we develop your team in terms that you bring forth the human dimension and you dress up what needs to be done — words of wisdom indeed.

It's up to the government of the day, you're quite right. Sometimes well-meaning people are not oblivious by intent but become so by virtue of their mandate and are not always relevant to the needs of the people who need it the most. It's not the last two years in these instances; it is the first two years in many more to come. I have no other comment except that hopefully the collective will have listened.

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Mr Wayne Wettlaufer (Kitchener): Dr Steinhauer, I'd like to thank you very much for your interest and your dedication in this field. For the last couple of years, contrary to what Mr Pouliot just said, I have dedicated

much of my time to the study of mental health and it's amazing how often it comes back to children and their early development.

In my discussions with psychologists, psychiatrists, school principals, judges, police, teachers, and I'm generalizing now, but much of what I have heard relates to parenting. There is some discussion of course on the poverty level, but much of it relates to parenting — lack of love, lack of discipline, something that we didn't see in our generation. I constantly hear that the generation to which I belong has been a very selfish generation. We have been targeted by the manufacturers from the day we were born. We were given, given, given and we took, took, took and we have never reserved anything for our children.

We also hear, or I've heard from many of these people, that the poverty level that we talk about, the poor people on the street, much of this is in immigrant families who come here with less education and that these immigrant families have been encouraged to come here by the federal government without letting them know what they might face when they get here. I agree that governments perhaps aren't doing enough, we have some responsibilities, but it has nothing to do with the amount of money we spend.

I'd love to talk to you further on this, just you and me, not today, but some time down the road if I have that opportunity.

The Chair: Not at this time, I'm sorry. Your time is up. I'll move to the Liberal Party.

Mr Monte Kwinter (Wilson Heights): Thank you very much, and for members of the committee I want you to know that Paul here is a perfect example of having been directed properly in his youth. I had the distinction of having him as my junior counsellor in camp when he was a teenager, and here he is addressing our committee.

I just want to say that I really find this paper you've prepared hits all of the right points. As you know, we as a caucus have just issued our First Step program, which in many ways mirrors some of the concerns you have. I happen to agree that you really have to put some resources to address some of these problems. I think it's a staggering statistic when you say that the average family has to work 77 weeks a year just to pay the bills, let alone anything else. That means two people working one and a half times: 52 weeks and then 25 weeks.

That's a staggering statistic and you wonder what happens to those people who are at the lower end of the scale, if that's average. That's got to have an impact and that impact has got to be picked up by somebody, and it can't just be a laissez-faire sort of thing, you know, just do your best. Do you have a comment on that?

The Chair: I'm sorry. If you do, you're going to have to save it. We're out of time, doctor. I thank you for your presentation, your written as well as your verbal one. It's well thought out and well presented.

Gentlemen, when I tell you you have a minute, if you want an answer, you can't take 59 seconds for the question.

CANADIAN MENTAL HEALTH ASSOCIATION, ONTARIO DIVISION

The Chair: The second presenter this morning is the Canadian Mental Health Association. Thank you for coming, and welcome. Please introduce your associates.

Mr John Kelly: Mr Chair, members of the committee, my name is John Kelly. As the past president of the Canadian Mental Health Association, Ontario division, I am pleased that you have provided the opportunity for our organization to make a presentation to you concerning the 1998-99 provincial budget.

I would like to introduce to you Glenn Thompson, our executive director, and Ruth Stoddart, the executive officer and senior coordinator of policy development at our provincial office.

The Canadian Mental Health Association, Ontario division, CMHA, is an incorporated, registered, non-profit charitable organization chartered in 1952. Approximately 4,000 volunteers are active in direct, board and committee service in a network of 36 branches located across Ontario. The CMHA, Ontario division, and its branch services and programs are funded through government grants, local United Ways and supplementary fund-raising activities.

Since our founding, the CMHA, Ontario division, has made significant contributions to the development of mental health policy in Ontario. We have consistently advocated for community mental health services which would allow individuals with mental illness to remain in their home communities, close to their families and other natural supports.

In each of our pre-budget submissions over the past several years, the CMHA, Ontario division, has recommended that a central target for the government be the reduction of the provincial deficit. It is our view that major transformational changes are still required in the health care system, especially in that part of the system with which we have the most experience, the mental health system.

We believe it is important that the government and this committee have a conceptual framework within which the potential impacts of the 1998-99 provincial budget may be examined. The New Framework for Support document prepared by the CMHA national office provides that frame of reference. A copy of the community resource base portion of the framework has been attached to our submission as appendix A.

The community resource base contained in the framework document demonstrates the ideal range of resources that should be available to a person with serious mental health problems if they are to live a fulfilling life in the community. The basic socioeconomic conditions of income, housing, work and education make up the foundation of this model. If people with serious mental illness do not have access to these fundamental supports, their ability to benefit from other services available to them is severely diminished.

Use of the framework model will ensure that decisions are made which facilitate the integration and coordination so needed to improve mental health care. The provincial office of the CMHA has recently developed a document called ACCESS: A Framework for a Community Based Mental Health Service System. This document provides a setting for the operationalization of the CMHA national framework through the development of a seamless system of community supports for persons with serious mental illness which emphasizes continuity of care and the achievement of desirable outcomes.

We encourage the government to ensure that the 1998-99 provincial budget includes provisions which provide the authority and impetus for positive change for the mental health system in Ontario.

Now I would like to turn to Glenn Thompson, who will present our views concerning the mental health reform process in Ontario. Ruth Stoddart will then summarize the advocacy activities of our organization in several other areas which are of great importance to persons with mental illness.

Mr Glenn Thompson: Mr Chairman and committee members, thank you for inviting us here today. As you listen to these remarks, I hope you'll see them in a context. Mr Kelly mentioned the ACCESS document. I've brought some copies of that in case committee members want it. It's not a set of financial recommendations, but a framework for community mental health care that we've just developed and it's now in wide circulation and seems to be quite well regarded.

I mention as well that the health field generally, and certainly the mental health field in particular, has had and continues to have tremendous problems of a lack of system coherence. The connection between the legislation that governs it, the policy from that legislation, the information systems or the lack thereof, the governance structures and the programming are all there in bits and pieces but, as Dr Steinhauer was talking about, the brain not getting very well hard-wired in some circumstances in youngsters, the elements of the mental health system certainly haven't got well wired together in this field, and it's a major concern. You should think, I would encourage you to, about any of these fiscal decisions in relation to that need for more coherent structure.

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I'm going to say something about the information about the mental health system that may give you a context for these remarks. You have heard us say before that one in five people in Ontario between the ages of 15 and 64 will suffer from at least one form of serious mental disorder in their lifetime, quite a sobering figure; in fact, one in five people in Ontario will suffer from some form of mental disorder — not always so serious — in any year, a major cost on our society if you want to look at this in cost terms and a major drain on our society in every other kind of human terms.

Approximately 118,800 Ontarians suffer from a serious mental illness, which may chronically impair — and the "chronic" is an important element to consider in this field — their ability to function in day-to-day life. There is a strong relationship between disadvantaged living situations such as unemployment and mental disorders. Think back to Dr Steinhauer's remarks about the development of children and the relationship in their development to those features. We see it in the mental disorder area. You can see it begin with youngsters and continue on with adults.

About 1.8 million days of productive work or school are lost each month by people with mental disorders. This number is nearly twice the number of days lost by an equal group among the healthy population. The loss in our society, the drain on the productive workforce through mental disorder and in the education system as well is very dramatic.

As can be seen in the above statistics, mental illness is certainly a serious problem. It affects a lot of people and it affects a lot of people who surround those individuals. The following numbers give some indication of the high cost of mental health care in Ontario.

The province was to spend about $18.3 billion on health care in 1997-98, over 35% of the provincial expenditure. In 1997-98, Ontario was to spend $728 million on mental health services, including psychiatric hospitals, general hospital psychiatric units, community mental health programs, homes for special care, but that doesn't include OHIP services provided by psychiatrists like Dr Steinhauer and family physicians. That amount is only about 4% of the provincial health care budget. Think about the numbers I mentioned earlier in terms of the quantum of mental health disturbance in society and then the quantum of the general health budget flowing to this field.

In 1997-98, more than 72% of the mental health budget, excluding OHIP, was to go to institutional care and about 28% to community services, quite a balance in favour of institutional care. These preceding statistics indicate the disparity between the total cost of mental health care and the funding of community mental health care.

As well as that, there are serious gaps in services and extensive waiting lists — you wouldn't be surprised with that disproportion of funding — in community mental health services in most parts of Ontario.

Let's think about the mental health reform process. The development of a continuum of community- and institutional-based services with multiple points of access and departure depending upon the need is central to a good mental health system. The Ministry of Health has recognized this need, both for the health system as a whole and in the mental health system in particular, in its 1996 business plan.

Our organization has supported the development of integrated delivery systems across the province with several preconditions needing to be in place: development and evaluation of pilot projects prior to the full implementation of an integrated delivery system to bring that kind of coherence that I mentioned earlier; the availability of information systems; the maintenance of a single-payor health care system and the use of capitation funding for

some service providers; investment of financial savings from implementation of integrated delivery systems in health promotion and prevention activities as well as services which emphasize all of the determinants of health. We need to get into the prevention business and not just be at the other end of the system in health care generally, and certainly in mental health we could intervene much earlier.

It's important to note that any continuum of services will require support from providers funded by sources other than the Ministry of Health. For this reason, in a time of fiscal restraint, it will be especially important that all Ontario government ministries work in a cooperative and coordinated fashion to meet this problem need.

To go to the funding area for a few minutes, the overriding concern for the mental health system at present certainly is funding, and that is funding to assist in the beginning — and we're really just at the beginning — of the transition from institutional care to community care. That split of 80% institution and 20% community — we're now five years into the Putting People First mental health plan design, which was to change that proportion to 40% institutional and 60% community services. We've only just begun. We're about four years behind, I would say, in that process. We need to rush to have any opportunity to catch up on that, and transition funding is critical.

Our estimates indicate that approximately $350 million may be required in transition funding to prime the pump to get the system going to allow the downsizing in institutions. None of us wants some of the fiascos that occurred a few years ago where people were sent out into the community and didn't have adequate care there. The Health Services Restructuring Commission has recognized those needs throughout its reports, we're glad to say, and we hope that the Minister of Health in her review of the mental health system just under way at the moment will see and address these particular needs for transition funding, then ongoing funding and a governance structure.

In relation to the 10 provincial psychiatric hospitals, the Health Services Restructuring Commission has recommended that the government close the Lakehead, the Brockville, the St Thomas and the London psychiatric hospitals and that those inpatient services be moved to schedule 1, to general hospitals in the areas where people actually are resident. The hospitals in the past, those 10, were located in all manner of places across the province; their placement bears little relationship to the areas of need and requirement.

The Health Services Restructuring Commission has recommended a great deal of money flow into the capital funding needs of hospitals, general hospitals and others in the transition process. What is lacking at the moment is transition funding for program transfer, and that's what we're most concerned about.

In the area of governance, the CMHA, Ontario division recommends that services provided by either a mental health agency as we recommend or whatever kind of governance structure is finally chosen be targeted to the seriously mentally ill. However, others with mental illness who seek mental health services through a family physician in an integrated delivery system of course could be referred to the mental health agency for more specialized services when those are required.

The CMHA, Ontario division recommends that linkages between a mental health authority and the eventual integrated delivery systems could be achieved through the use of shared care approaches to health care delivery, allowing consultation between providers and the transfer of clients between the two types of services.

CMHA recommends that prior to implementation of any type of integrated delivery system, the mental health field will need to develop consistent definitions of mental health needs and appropriate service requirements and determine the cost level of each of those. Present distribution and use of mental health funding, of course, must be determined.

We recommend the development of mechanisms to prevent adverse selection occurring, as often happens in the US in their mental health funded systems, where the organizations operating the systems choose not to handle the most seriously mentally ill because they're one of the most costly and often difficult populations to deal with.

We also have concerns about several other components of the mental health reform process. I'm not going to go into those in any detail today but will just mention the whole set of issues around data and research and evaluation, public education, mental health promotion and prevention and consumer-survivor and family initiatives and partnerships.

Think again, if you will, about that lack of coherence between legislation and policy and information systems, governance and programs, as you think about the fiscal need of mental health in the next few years.

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Ms Ruth Stoddart: There are various other areas detailed in our paper that are the responsibility of ministries other than the Ministry of Health. In order to give the committee time for questions, I won't go into any of them in any detail. There are three I'd like to mention briefly, primarily because they've been fairly prominent in the media lately and we think they're very important.

The first of these is housing and support needs for persons with mental illness. We'd like to point out that people with mental illnesses, when they're looking for housing in the community, not only have to compete with other individuals and families to get affordable housing, but they also face other barriers in not only finding the housing but maintaining it. Those include things such as a lack of employment opportunities — if you're not employed, you often don't have the money to pay the rent — and also discrimination from landlords and fear from communities.

The CMHA has many branches across the province that provide supports to people living in housing in the community. Our branches are quite concerned about the downloading of housing services from the provincial government to the municipalities. This downloading is to include social housing. We haven't had any clear direction

yet from the government, though, as to what's going to happen to the supportive housing part of social housing. Those are the supports that enable people to live out in the community and that are provided to people, whether they're in social housing, non-profit housing or so-called regular housing.

We're very concerned that if funding responsibility for social housing is shifted completely to the municipalities, those municipalities which don't have adequate money to fund such services may see housing not only become substandard but disappear altogether. We've sent a submission to the Ministry of Municipal Affairs and Housing and the Ministry of Health that suggests three possible options for responsibility centres for funding supportive housing. Each of these includes a recommendation that the Ministry of Health, at least for the interim, retain responsibility for funding the supports part of supportive housing for persons with mental illness.

The other part of housing that has recently been in the news concerns people who are homeless and have mental illnesses. The CMHA, Ontario division, has developed a position paper about homelessness, which is available. Certainly we've made recommendations to the government for advocacy work to increase access to housing and supports for persons who are homeless. There's a real need to develop individualized and flexible supports for these people, and staff outreach skills, so that persons who are homeless with mental illness are able to have more access to housing programs.

The second area I'd like to talk about is social assistance reform. As I think this committee is aware, Bill 142 has been progressing through the Legislature and is going to completely change the existing welfare system. Many people with mental health problems rely on the social assistance system as their sole source of income. We've been very concerned, in watching the progress of Bill 142, about parts of the legislation, some of which have been addressed as the legislation has gone through.

The primary, overriding concern we have, though, is that the legislation leaves a large amount of regulation to the regulations, that many things of serious concern to people with disabilities could be determined in the regulations, which, as you know, can be changed without any sort of public hearings or public debate. Our organization has been consulting with the Ministry of Community and Social Services for about two years on social assistance reform, and we hope to continue to do so.

In addition, we'll also be sending some information to that ministry about the recent announcements of last week, which are of huge concern to us, primarily the apparent new requirement that people who are homeless are going to require receipts for any kind of housing they have, and the potential changes to drug benefits.

Last but certainly not least, and the one that's been in the news most lately, I'd like to talk a little bit about forensic services. Many of our branches provide services to forensic clients. Those are people with mental illness who have been in contact with the criminal justice system. The services that the branches provide are virtually all their services to these clients. Many of our branches also participate in the diversion program which was initially developed by the ministries of health and the Attorney General and is now expanded to include community and social services and the Solicitor General.

These branches are quite concerned — I get telephone calls fairly regularly — about public perceptions about forensic clients in the community. As hospitals continue to be downsized, as well as other institutions, an increasing number of forensic clients are going to be discharged into the community. As I've said, some recent high-profile coroners' inquests and incidents in Toronto have certainly brought mental health issues to the attention of the general public. This has resulted in public calls to amend the Mental Health Act.

The CMHA, Ontario division, would like to emphasize three points. First of all, we don't believe that any client of a community agency should be forced to accept treatment against their will. Second, we believe there's definitely more public education needed regarding public perceptions about forensic clients. Finally, there's more research needed about issues of violence and prediction of risk.

We've also stated that we don't believe the Mental Health Act should be amended as it presently exists, because if community services were in place and existing legislation such as the Mental Health Act, the Substitute Decisions Act and the Health Care Consent Act were used as they are written and as they were intended to be used, people with mental illness could receive the services they require without any coercion being involved.

Mr Kelly: Thank you once again for the opportunity to make this presentation to you today. Before we leave, we'd like to leave you with four important thoughts.

First, the CMHA, Ontario division, supports the principle of deficit reduction. Second, the government's key goal should be to preserve the protection afforded to the most vulnerable in our society. Third, there should be a single point of accountability within the government for children's mental health services. Fourth, to maintain the overall health budget at $18.3 billion and to retain the mental health envelope, there must be efficiency and economy in spending and the reallocation of funds from institutions to the community.

The Chair: We have approximately one minute per caucus. We'll start with the government caucus.

Mr John R. Baird (Nepean): Thank you very much for your presentation. I appreciate the time you took to put it together. We'll certainly reflect on it.

I just had a quick question. On page 3 of your presentation you mentioned the 60%-40% split between community and institutional care and mentioned that we were about four years behind on reaching that goal — which is interesting; we've only been in government for two and a half years, so I certainly accept the numbers. Is that, as you see it, an ideal breakdown, 60-40? Is that, in your mind, a good goal that we should pursue? In the presentation you just mentioned it as "the goal," rather than one that you would embrace.

Mr Thompson: It's a goal that developed out of something called the Graham report. That led to Putting People First becoming policy of the previous government.

Yes, we've supported that kind of shift. While one could dicker, I suppose, about the figures, we think the shift from 80-20 to something in the order of 60-40 is the right way to go and quite achievable.

Mr Kwinter: I only have one minute, so I would like to know this: If we have a message to deliver on behalf of your organization to the Treasurer — and that's really the purpose of these hearings — what would it be?

Mr Thompson: I think the main message would be that if you don't prime the pump in mental health, you'll continue to spend money on institutional care that won't be as effective as having the person in their own community with what some people like to call wraparound treatment, the full sequence of care available to them in their nearby community.

Mr Pouliot: It's a renewed pleasure to see you folks. Good morning.

My understanding is that Mr Newman, who's an MPP and a parliamentary assistant, is currently undertaking a review of the Mental Health Act. We with the official opposition and the third party are anxiously waiting, for we are not to be consulted.

You did mention regulations. It should worry and does worry your association. Increasingly, the will of the people is being done through regulation, where you have a group of faceless people who gather in a room after hours and determine the fate of the client group, of the people, and those great Satans will stop at absolutely nothing to reconcile the bottom line.

I have with me, and I would appreciate your comment, a commitment from the government to reduce taxes. We've all heard it. It's hard to find on the paycheque if you make an ordinary salary. Those people there benefit more, those people benefit some, and those people here benefit less. What you have is $3 billion in year 3 of the tax cut. This will go up to $5 billion. In other words, the hand that takes will take $5 billion less. Do you feel it will be reflected in your program? You say one out of every four adults from the age of 15 to 64 will be in need, yet those people will be taking close to $6 billion out, so where are the one out of every four from 15 to 64 to get the service?

The Chair: You're going to have to give Mr Pouliot a one-word answer.

Mr Thompson: The shift of funding in the health care system is just essential. Mental health has to have a larger proportion of that funding. There's no doubt about that in our mind. The global amount that's spent on health care is something that all of you will have to debate about, and I'm sure you do at all times consider that.

The Chair: You're right about that, sir, and I'm going to have to interrupt you there. I apologize. Thank you very much for your presentation and for your attendance this morning.

1030

INFORMETRICA LTD

The Chair: The next presenter this morning is Mr McCracken from Informetrica. Welcome. Thank you for coming, sir. You've been allotted one hour.

Mr Mike McCracken: Thank you for inviting me again this year to come. The main purpose I try to serve is to give you some background on where we think the economy is going and then to answer any of the questions you wish to put to us. I've handed out to you a copy of some foils. I'll go very quickly through some of these items just to set the scene. The cartoon is more for your pleasure on other occasions, when you consider some of the tradeoffs you have to make as a group. The old guns and butter is of course just part of the story.

Before I go into the remarks I have there, though, I'd like to share with you some observations from a meeting I had on Thursday and Friday in Washington among a number of US and international economists which it seems to me we should take into account in colouring your decisions over the next while. I'd like to simply highlight some of the growing concerns on the international front that make it more and more likely that we're going to be moving towards a slower-growth environment rather than a more rapid growth. Certainly over the last several years the international environment has been a plus. It's made budgets that were in deficit move to balance, has led to economic growth even though domestic policy has been moving towards restraint in many jurisdictions. But we may no longer get that bonus; it may in fact be going the other way.

Very quickly, on the direct story in Asia, it is now beginning to show up in some of the corporate perceptions, with shipments down from 15% to 20% increases to essentially no increase; prices dropping for chemicals; Asian air carriers not reporting their data because it's perceived to be so bad that they simply don't file the numbers with the international authorities; and concern growing that the problems are not going to be restricted to simply South Asia and Korea but that Japan is also looking much weaker in terms of its stance. There is a budget coming up in the next few weeks, which may help offset that to some extent.

This also shows up in an indirect way with loss of orders for previous items anticipated. Most of the big bulge in aircraft orders in the world is from Asian airlines that were in some sense in trouble prior to this problem emerging, and the question, increasingly, is when they will cancel as opposed to whether they will.

Nor is there a sense that it's totally missing on the domestic US side. US retail is down. In January, the US rail industry had a sharp drop in their activity, back to more normal levels after having a rather strong period. Domestic air travel in the US has also dropped from 4% year over year to 1% year over year. These are all leading indicators of a softening of an economy, moving from a view that the outlook might be of an Asian impact of 0.5%

on economies perhaps to double or triple that kind of an effect emerging. Also, of course, the US is having some continuing visible difficulties in the western US with El Niño.

The flip side is that those aren't the only problems either. Anyone who feels that we can skate through the Asian difficulties need only look around to who is next on the list, with central European and Russian banks coming increasingly under the gun. Indonesia, on top of their difficulties that we've just seen from financial markets, is essentially on the other side of El Niño, resulting in substantial drought and a growing sense that in Indonesia there will be food riots and that indeed the government of the day may not make it to their April 1 election. The Middle East difficulties we know, of course, as people try to predict at what hour of the day conflict in Iraq will break out, with concerns being expressed about that action by both Russia and China and some terrorist groups. If you have now decided you still have no reason to worry, there is concern that China will also fall out of stability of currency and stability of economy with devaluations of the renminbi.

I just give that to you as a background because you're going to be trying to advise governments and to consider the moves they make in light of an international situation which is increasingly difficult. We should not forget that while the US is involved in international affairs and international trade, Canada is perhaps better described as being committed to such moves. With some 40% of their trade involved in international markets, with foreign ownership very high and with linkages throughout the world, international capital flow is almost an order of magnitude larger than the US. The difference, by the way, between involved and committed is, if this morning for breakfast you had bacon and eggs, the chicken was involved and the hog was committed to that particular breakfast delivery.

We then turn to the major problems facing Canada. The unemployment rate seems to be stuck nationally around 9%, a little bit less in Ontario. Real per capita incomes are stagnant or declining, and that message has continued now since 1989. We seem to be making no progress on the income distribution side, either before or after tax. Certain groups are falling further behind. You heard about some of those this morning, the difficulties with youth and children, certainly aboriginal, unskilled, those requiring medical help and treatment, mental or otherwise. The fiscal limitations, however, seem to prevent us from doing anything about these items. We also, of course, share continued concerns about our international competitiveness.

The kind of economic performance that's turning out at this point in time, it looks like in 1997 we had inflation below 2%, a full percentage point below US measures. We are currently running at 0.7% on the CPI over the last 12 months, well below the Bank of Canada's lower target. Indeed, if you look at the broad-base gross domestic product deflator in Canada, for the last three quarters it has been declining absolutely. So we'll see in the fourth quarter whether we have deflation on a year-over-year basis; certainly we'll have it for the four quarters. It would strike me that of all the problems we have on the table, inflation is not one of those at this point in time.

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On the real growth side, 1997 did indeed perform better than expected, the best year since 1994 and indeed one of the few years in which economic activity has been sufficient to make some progress on the unemployment rate. Next year, 1998, it looks as if it will slow to about 3%, with some further slowing in subsequent years, part of that attributable to slower US growth and part of that attributable to a continuation of fiscal restraint by most levels of government and a continuation of relatively high interest rates in real terms in Canada.

As I mentioned, we saw the unemployment rate drop down to 8.6% in December and back up to 8.9% in January. We wait to see if that was mainly an ice storm problem, although it looks as if in fact only a small part could be attributed to that. But we'll see in February whether it goes back up over 9% again or comes down below 9%. But the bottom line in terms of the outlook is very little further progress expected. We will experience an unemployment rate, currently about four percentage points higher than the US, continuing at roughly that level, with the youth unemployment rate, currently around 16%, still staying in the double-digit range.

Behind this is a rather worrisome long-term effect on what we call the "participation rate" in the employment ratio. The participation rate is the number of people 15 years of age and over who are looking for work or are working. That number was about 68% back in 1989. It has declined now to under 65%. The prognosis is for essentially no bounce back.

In the US, what happened was a short drop in 1990-91 in their recession and then a quick bounce back. Today in the US, the number is up close to 68% of the population working or looking for work, compared to our roughly 65%, three percentage points more.

A similar story occurs on the employment ratio. Again, we've seen a sharp drop in that and it has not bounced back. That is again counter to the behaviour that has been experienced by our neighbour to the south and also contrary to the bounce back that we had in the 1981-82 recession and back in the slowdown in 1974-75. This problem, if you will, has been described as "the great Canadian slump" by Pierre Fortin, suggesting that the losses already are about 30% of what we had in the 1930s, with little expectation of a major turnaround. What this comes out to mean is that we're operating some 10% below the potential of the economy that we could be producing, meaning we're wasting some $80 billion to $100 billion per year in forgone output. That would buy a lot of improvements in our society, if we could move that unemployment rate back to, say, 4%.

In terms of real wages and productivity, one of the characteristics of the last several years has been very little progress made on real wages. Even though there has been some productivity improvement, real wages are deflated by the consumer price index. This leaves employees

feeling worse off, making no progress on their earned wages. At the same time, when you look at what is happening from an employer's perspective, deflating by the prices they receive, you find that there has been very little deterioration in the real wage. So what you have is a sort of disconnect between what the corporate sector, which is paying the wages, has, and those who are receiving them: the consequence of basically indirect taxes and the depreciating dollar.

The result of that translates over into real disposable income being very weak, and indeed real disposable income per household is now running at about 94 on a scale of 100 in 1981, about 6% below the 1981 level, and is down from about 106 in 1989, so a decline of some 10% or 12% from the previous peak.

We think there will be some turnaround starting in 1998 but we've been waiting for that for a number of years. It depends on an economy which is growing fairly well, as we had depicted earlier, but even with the growth we have in our reference forecast, we get back only to the level in 2006 that we had in 1981: essentially a 25-year period with no real increase in income per household.

Nor is the setting of interest rates all that hopeful either. Even though they have come down in nominal terms to something in the order of a 6% range, it has coincided with this potential drop in the rate of inflation such that so-called real interest rates now are still running about 5%, dramatically higher than they were back in the 1970s and the 1960s and the 1950s and the 1940s. As such, we still are in that sort of catch-22 position of having to run large primary surpluses by governments in order to get some semblance of stability in debt ratios. That constraint, unless interest rates come down dramatically — and of course they've gone up 175 basis points since their low point in the last six months. Without that decline, you're going to find yourself still in the position of trying to figure out how to run a primary surplus — that is, a surplus on program expenditure less revenues — in order to more than cover the interest costs and to get some stability in your debt ratios.

Policies continue to move towards restraint at the federal level and in a number of the provinces, but essentially the message is one of continued tightening, a continuation of limited indexing, opportunistic increases in user charges. The deficit phobia continues, with further cuts in expenditures, including continued heat on the transfers to the provinces. Immigration backlash is perhaps also something to be expected on the current policy side.

Some of the nightmares — I talked to you briefly at the start about a weakening US and a weakening world economy. Certainly, if a major recession hits the US and the world economy, this will make the policy in Canada quite difficult. Inflation rates picking up, with the Bank of Canada raising interest rates further, again would add further damage. Financial institutions closing their doors, either here domestically or abroad, can send shocks through the system. Another referendum in Quebec would do the same sort of thing.

In that kind of environment, I guess the question is, what do you do?

First, let me suggest what you don't do. You don't try to raise interest rates, certainly not permanently. Hopefully the Bank of Canada will be able to back off their more recent jumps if there is some strength returning to the Canadian dollar. You don't argue about whether we should have a potential growth rate of 2.5% or 2.75%, which is the current debate in the US. We're so far away from potential that we should just smile when they debate that. You don't cut taxes where you don't get bang for your buck. Certainly those who have a strong tendency to save it tend not to lead to any job creation or improvement in incomes. If you focus only on running surpluses and reducing the debt, then you are, it strikes me, going to make the situation worse, not better.

Certainly one of the other problems out there is an increasing sense of insecurity as people cut back on social programs and with the removal of the labour market protections that were in place.

Some sensible policies: Certainly adopting a full employment target and trying to aim policy in that direction, stimulus on both the fiscal and monetary side, would make sense. If you're worried about inflation, look at some alternative ways of controlling inflation other than the current incomes policy, which is a very high rate of unemployment.

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It would make sense, before we have to, to begin improving our regulatory oversight on our financial institutions, and work to improve the distribution in incomes. Certainly one area that suggests further investment would be the infrastructure side, including education, health and social capital, as well as the roads, telecommunications and electrical distribution.

I was struck by the presentation earlier that if we thought about people, humans, as capital, we wouldn't be treating them quite the way we are either in terms of children or those with mental health problems. Someone objected to the well care indicator. I suggest to you alternatively to just call it the "dirty dozen" indicators of children. They're all certainly ones which should bring shame if you feel governments are responsible for those activities.

There also are some other innovations that could be looked at. Some of these are federal, some are provincial only, some are provincial plus federal.

We have kept talking about guaranteed annual incomes off and on over the last 20 years. Certainly one way to get started on perhaps understanding how those would work better would be to go ahead and do them in high unemployment areas where you have little worry about the incentive effects of such guaranteed annual incomes but may in fact keep activity continuing in those areas, many of which are rural areas. If, however, you don't want those rural areas to survive or continue, then obviously you don't need to look at that.

Working time changes: There have been task forces both provincially and federally that have looked at the

different options for improving and spreading, if you will, the work among a population. A better balance in family is one of the outcomes in that. Many of the levers for improving working time are in provincial hands: standards on working time, vacations and so on. Certainly that's an area that you could take a serious look at.

Some things on the federal side which fit with some payroll tax approaches by provinces as well would be to look at removing the overtime incentive from UI and CPP premiums, for example, by no longer having them limited at the upper end by the income level that people have. The effect is that it essentially removes the incentive to use overtime instead of increased hiring. You could even exempt the first X thousand of income and flip the incentive the other way around so you'd have an incentive to hire rather than to work overtime.

Some things like eliminating the UI premiums for individuals are more federal issues, but certainly since the federal government no longer allows individuals to receive UI benefits if they voluntarily quit, it seems to me they are no longer party to the decision about unemployment and it's not clear why they should be paying those premiums for that.

In an area of provincial authority, if you're under pressure to raise minimum wage or the next time you consider doing it, you may want to consider raising the minimum wage for adults with high school or equivalency education to provide that carrot for the completion of school by students and by those who can get a high school equivalency.

Let me stop at that point and take your questions. Again, as I guess I tell you every year, you don't have an easy job. I appreciate that problem. It strikes me this year that the tide is on its way out rather than coming in, and it is going to make your challenge even more difficult from a viewpoint of trying to maintain an economy growing in this province while at the same time making progress on the budget and worrying about the large numbers of groups that are falling through the cracks.

The Chair: Thank you very much, Mr McCracken. We'll start with the official opposition.

Mr Gerry Phillips (Scarborough-Agincourt): I'm trying to get a feeling for employment and what we should expect in employment growth. Economists have told us that, historically, employment grows at the rate of real GDP minus one percentage point. In 1997, that didn't work out; it looked like growth, here in Ontario at least, was somewhere around 4.4%, and employment growth was somewhere under 2%.

If there is some reason for that, that has some fairly important implications for us, because if employment doesn't grow in line with GDP growth, if there's some other thing happening, such as productivity improvement, we then face quite a different employment problem than we had hoped we would face. Do you have any view on that?

Mr McCracken: My sense is that you will get back to the more normal relationship. In any one year you may find that you'll get a cyclical pickup on productivity. Eventually, though, when people see that they are getting the income, that will translate into jobs.

One of the things we should doublecheck, though, in your case is the degree to which you may have had some increase in part-time, so you could have an offset in hours. The relationship is really between growth in hours, productivity and GDP, and if you had 4.4%, you might find that your hours also went up, which would have cut down the number of people somewhat. That's usually the first response in additional growth, some improvement in hours. I can check that for you and get back to you.

But productivity improvements have been averaging 1% or less, and certainly we should be happy to see a pickup of 1%. It just means, however, that the challenge in terms of making progress on the unemployment rate is even more difficult.

Mr Phillips: I didn't know, the service sector being such a huge part of our economy, whether investments in technology in the service sector are having any equivalent impact to what investment in the manufacturing sector might have had in the past. We're looking now at estimates for growth in Ontario this year, 1998, of 3.5% real GDP, and I think 3.2% the following year. Could you give us a sense of how realistic that is? Is that, as they say, a slam-dunk, is that on the modest side or is that starting to become a bit risky?

Mr McCracken: Anyone who is in the forecasting business knows that you speak confidently about the numbers but don't give them the date, or hedge like crazy.

My sense is that if six months ago or three months ago someone had told me 3.5% and 3.2%, I would have said: "You're being conservative. You're taking a number that you are likely to overachieve." Today we are sitting with a 3% national view, going down to, say, 2.5% next year, and we're worried about whether we should be revising that down as a result of a weaker US economy and some of these difficulties abroad.

It would strike me that today your 3.5% and 3.2% might be best expressed as a hopeful mean of what it might be. If there are any risks to that outlook, I would suggest to you that the risks are downward. So you may find that growth in 1998, rather than being 3.5%, is 3% or 2.5%. I think 2.5% is about the most on the down side, but I should point out that once things begin to deteriorate, things never happen smoothly. Go back and look at history. We have gone from 3% or 4% growth to where all off a sudden we're facing zip.

What happens is that some sectors can move very quickly to cut back on their economic activity. Business investment is one of them. That can go down by 10% or 20% in the same way it goes up by 10% or 20% in some years. If they don't think they are going to need that capacity in the next year or two or three, they will simply stop, and that will show up in spades.

Exports can fall off quite quickly. We are at the end of the chain supplying the US. If the US slows a little, we are often the first group that gets the orders cancelled. So you may again find a slowdown of 1% in the US translating into a 3%, 4% or 5% slowdown in growth of trade. It can

be a very quick deterioration in outlook even if governments themselves don't add to the problem by their cutbacks.

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Mr Phillips: The Ontario economy to a very large extent is driven by US auto consumption.

Mr McCracken: Very much so.

Mr Phillips: We've benefited enormously in the last few years from that. That's an interesting observation because of the just-in-time inventory. There used to be a longer lag, I think.

Mr McCracken: That's right.

Mr Phillips: There was a downturn before it impacted on auto production.

You commented earlier on the US economy, which has a huge impact on Ontario. What is your sense of the next 12 to 18 months in the US as it may impact particularly on our auto sector? You might also comment at the same time, in case we run out of time, on the dollar and whether the 69-cent dollar is something we should focus on or simply say that's the way things work and accept it.

Mr McCracken: On the auto side, the sense I have from the US forecasts is expectations of no increase in 1998-99 from the 1997 levels, which means something in the order of about 15.1 million units. However, they are anticipating, with the lower yen and the lower Korean won, increased competition from abroad, so their sense would be that fewer of those cars would be cars made in the US. Indeed, even some of the transplants in the US have stopped shipping their products back to Japan as another way in which that adjustment takes place. So you get a loss of activity in the US or more aggressive attempts to put those into the marketplace in the US. So I would say little growth, if any, in autos. That's autos plus trucks.

To get beyond that depends on how lucky we are with particular models vis-à-vis each other. We have been, of course, extraordinarily lucky historically in picking up the Chrysler van and some of the other models that have sold very well in the US. That luck may not be with us forever, of course. California and some others are beginning to realize that what has been going on is an attempt to get around some of their environmental standards, and so there are moves to apply those also to light trucks.

The dollar being lower, at 69 cents, makes Canada a somewhat more attractive platform for making automobiles and for making anything else. In other words, it helps exporters. In that sense, it's a positive thing for Canada, but it moves money from consumers to business. That's essentially the other transaction that's going on. Your real buying power is less when you have a 69-cent dollar than when you have a 75-cent dollar. Effectively, that money is transferred to exporters and import-competing industries in Canada.

The question is, what do they do with that improvement? Do they put it in the bank in terms of increased profitability, in which case that may be good for them but not necessarily good for the economy overall? If they spend it on new investment or on increased employment, increased sales in which they aggressively go out and try to boost their sales, that could warrant a dollar — net, we usually get slightly higher job impacts out of a lower dollar.

The caveat is that if that lower dollar is also matched by higher interest rates, what you gain on the one side out of improvements in economic activity from a lower dollar you may find yourself losing on interest rates. One thing we found in our regional work over the years is that Ontario is doubly sensitive to both exchange rates, particularly the Canada-US exchange rate, and interest rates. That's because of the mix of activities you have. You trade a lot and you also produce a lot of the investment goods in Canada and a lot of the durable goods, so any weakness in the economy attributable to higher interest rates redounds to Ontario particularly, as do, of course, any positive effects out of the exchange rate.

So if you can have a 69-cent dollar without a bank raising interest rates, you're probably better off. If what you get is a lower dollar and higher interest rates, what you're going to find is a twist occurring in your economy, with some of the export sectors benefiting and some of your investment goods sectors hurting as a result of it. You may find it's all a wash.

Mr Phillips: Gambling is a huge growth industry. It's clearly the fastest-growing revenue for the provincial government. We were told the other day the government's expecting hundreds of millions of dollars of revenue from video lottery terminals, electronic slot machines. Have you had any opportunity to look at the gambling industry North America-wide and have you any advice for us? I think gambling will become the third-largest source of revenue for the province of Ontario in the next few months.

Mr McCracken: We've done a few things on it over the years, both illicit and legal forms of gambling. One of the fundamental issues you have to ask yourself as a government before you sort of go down is what you're doing with any kind of move on the gambling front. Essentially, gambling, if it's going to make money for the province, is a deal in which people give you a dollar and you give them back 50 cents, or they give you a dollar and you give them back 95 cents repeatedly until there is no dollar left. Essentially it depends on the ignorance of people in terms of what the odds are on the offer you're making to them, whether that be a lottery, a VLT, bingo or anything else.

There are two schools of thought. One would say it's a tax on ignorance. Maybe if we tax it highly enough we'll somehow lose the ignorant in that process. It's kind of like the cigarette tax in that sense, though; we find that ignorance seems to be habitual.

The other thought is that these same people will do this anyway somewhere. So the issue becomes one of, if we're going to have people running numbers, gambling in one form or another, should we in fact participate as the state, with at least some saving grace that we can recycle those funds back into society rather than having them go into the hands of organized crime or elsewhere.

The Chair: Excuse me, sir. On that note I have to interrupt and move to Mr Pouliot. He may wish to pick up on it because his riding — well, I don't want to get into that.

Mr Pouliot: I thank you kindly, Your Honour.

Mr McCracken, welcome back. Yes, I will indeed. The real gambling, by way of the lack of regulation and protection for the investor, is the Vancouver Stock Exchange, followed closely by the Alberta Stock Exchange, and there are other indices, sir, that will rival the worst lottery system. But there too it's a voluntary contribution.

Mr McCracken: Unfortunately there the state doesn't have a sufficiently high tax to benefit very much.

Mr Pouliot: You did mention the Asian factor. By your tone I take it that we're still in the world of the unknown, for it has not been fully impacting.

Mr McCracken: No. We haven't seen it in our data here at all yet, I would argue. There's lots more to come, deterioration in January and February and more coming down the pipeline, so it will be probably the summer before you have the full sense of the degree of Asian flu you may have contracted in trade.

Mr Pouliot: You've also mentioned, and I see a relationship, your concern, and if not concern, certainly your interest, vis-à-vis interest rates. As the Asian impact develops and is more present in our daily lives, we suspect that some regions of the country, ie, British Columbia, which I trust exceeds 25% to 30% exposure to the Asian market in terms of their exports — given the fact that we as a country are still to a large extent well represented if not over-represented — we're resource-based in that sector. If you have less growth, would that not give us a positive outlook on interest rates, ie, that they would not be likely to go up because of the pressure of less growth and Ontario, being manufacturing-based, would perhaps benefit or suffer as much as others who are more resource-based?

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Mr McCracken: There's certainly a hope that we'll have a benign interest rate policy, and indeed up until Friday a week ago I was very pleased to see the Bank of Canada keeping their hands in their pockets. But they just couldn't resist. They took them out and started playing with the bloody dials and gave us 50 basis points more on interest rates. Now, my assessment of what was happening is that we were getting side-swiped, in a sense, by Asian money moving into the US and into Canada, but more rapidly into the US, causing some appreciation of their currency relative to ours.

I think the problem with the Bank of Canada is that they have fixated on this monetary conditions index, which is a combination of the exchange rate and interest rate. So if we find that because of commodity prices dropping they think they're easing up too much with a lower exchange rate, then they seem to be telling us they're going to move to higher interest rates. Unfortunately they're setting a monetary conditions index to try to give us stability in that when our situation requires much easier interest rates.

Mr Pouliot: With respect, if I may follow through by way of supplementary on what you've said about interest rates, the pundits have established a very small differential between short-term and long-term. The spread is very small. Would that not be guidance or an indication, at least speculation, that if you have some turbulence it would be short-term, but yet the call medium and long-term is for stability and more stable, relatively low rates?

Mr McCracken: That's certainly the hope, and one of the fears of course is that you get into a position where short rates are higher than long rates, and when that happens we know that's usually the precursor for a major recession. Keep in mind real interest rates are still very high in Canada. Even though the nominal interest rate, that long rate you're looking at out there, seems low, it's low historically but it's still very high in real terms relative to inflation.

Mr Pouliot: You talked about, simply put, and I hope I got it right, how once you have a car, you have shelter — those are big-ticket items — you are not likely to tap the marketplace. What impact do you feel the philosophy — because it's not a one-time; it seems to stay with us. Savings rates, if not at an all-time low, are very low historically. Personal debt —

Mr McCracken: Very high.

Mr Pouliot: — is very, very high. You've also spiced the discussion by indicating that you are concerned about the distribution of income. Were you talking about the disparity, that people who can run the fastest get away from the field, and that we can only watch one television, wear one set of clothes and eat one meal at a time? If you look at the savings rates, if you look at the personal debt and if you look at the disparity between the haves and the rest of us, you may conclude that the consumer will not have enough money in pocket to buy goods from the marketplace?

Mr McCracken: Certainly our interpretation of 1997, going into it, was that people who expected the consumer to be extremely strong were going to be disappointed. We saw slow growth or no growth in real income; we saw very high debt ratios, at a record high, and argued the banks would not likely extend further credit to them. What we saw instead was that in fact the banks did extend further credit and people brought down their savings from a drop that had already occurred the year before to a very low level. The consumer in 1997 was quite active, so what's the missing element?

I think there are several different elements. First off, people began to get a little confidence back with the decline in the unemployment rate in 1997. That generally pushes up the consumer confidence index. Also, we had some decline in interest rates, so there was some help there. But the other thing that's been happening is that we should recognize that realized capital gains on equities are not measured as part of the income number we all look at. They're not part of disposable income. They are treated as, if you will, a transitory gain or a gain outside of the

system. Some analysis that has been done on the magnitude of those gains in both the US and Canada suggests that they are sufficiently large that they could be part of why you saw a pickup in consumption in the two countries and this apparent decline in the saving rate. Of course, we also know that those capital gains are not being realized uniformly across all of the people in society. They are very much concentrated in the upper end, the upper 5%. Even given the upper 20%, you'll find all of them.

The point is that you might have some improvement in consumption and income occurring, but it will be among the very top. Now, there's nothing wrong with that if you're in the top, and of course if you work for a firm that benefits from that economic activity, there will be increased employment for you down the line, but it does suggest as well, though, the transitory nature of that because in the same way we worry about the high debt ratios, the pundits aren't too quick to call for yet another 30% gain in 1998 on equity markets at this point.

Mr Pouliot: In your presentation, Mr McCracken, you question perhaps the value for money of the tax cut by way of indicating that it does not quite filter through. I think you've mentioned — I'm trying to remember verbatim — that some people will not spend, they will just save the money. report is as follows:

Since it has been well established that the tax cut benefits the well-to-do more than the average consumer — in fact some of my friends, the people I associate with, were hard-pressed to find any difference in their pay envelope — do you feel that if that money, in lieu of the tax cut, had been put against the deficit — for instance, if I have my credit card and I'm overexposed, I've spent too much, I would pay my debt before I would throw another party; once my debt is paid I would perhaps celebrate — the taxpayers of Ontario, in view of the massive debt and in view of the persistence of the present regime to accumulate that debt all with borrowed money — the money would best be served by paying down the provincial credit card, in lieu of giving the tax cut to people who are not going to spend it because mostly they don't need it?

Mr McCracken: No, I don't. Let's understand a couple of things here. If you give money to people and they can pay down their debts, then they are quite interested in that. They don't, quite frankly, care about the provincial debt because they don't understand that that might be theirs at some future date in terms of higher taxes or cuts in services.

I think the key reason you would choose, however, not to do a tax cut is that you look at the job creation activities and the importance we place in our society on having a job. It strikes me that if you're concerned about increasing employment, then your priority is to direct employment increases, direct spending, where you get roughly 20,000 jobs per billion, instead of tax cuts where you get roughly 10,000 jobs per billion.

Mr Pouliot: That's what I meant, yes.

Mr McCracken: But a debt reduction gives you zero jobs per billion. So you can think of a tax cut as being sort of a half-assed measure, but at least it's in the right direction. I don't know if that helps set up at least some further questions.

The Chair: Thank you, sir. I'll have to interrupt you there and move to the government caucus, Mr Baird first.

Mr Baird: Thank you very much for your presentation. I certainly appreciate it. I have a number of questions arising from your presentation I wanted to ask. At the end you said that if we gave money to people they will pay down their debt, and that relates back to some of the themes in your presentation of high consumer debt levels, that you're concerned that the banks wouldn't lend people more money but that paying down debt would be an outcome of the tax cut and that would have positive economic impact. Could I ask you to comment on that?

Mr McCracken: My comment was that if you were worried about debt reduction it would more likely be a personal debt reduction that people would be concerned about, not necessarily reduction of the national debt.

Clearly, if what people, regardless of their income level, do with an income increase, earned or transferred to them or through a tax cut, is to reduce their debt or to increase their saving, ie, leave it in the bank, then the second-round consequences of that are negligible; they have no effect on jobs. If in the first instance they got that income through a transfer rather than by, say, being directly hired and employed, then all you get out of it is the first round.

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What we have observed over time is that when you give people more income they will do several things with it. They will consume a good part of it, usually about 80% of it in the first instance, and they will save about 20% of it. That 20% they save can be either in the form of an increase in assets or in their chequing account or it can take the form of decreased debt. Either one from a national accounts viewpoint is the same.

The only mechanism by which some people are able to conjure up some big benefits from debt reduction, either of individuals or of governments, is to argue that these lead to interest rate reductions. One would find, I think, some difficulty in proving that claim; ie, if you look at the behaviour of interest rates over the course of the last 20, 30 years, there's little evidence, if any, that debt ratios, whether federal debt, provincial debt, all-government debt, private debt and the changes that have occurred in those, have anything to do specifically with interest rate movements.

Interest rate movements in some sense are independently determined as a choice of policy and in Canada's context as a reaction also to what's happening to international rates. If you take those as independent from that, then the only issue is, whose debt is it in some sense that you want to reduce? Certainly the carrying costs of government debts tend to be substantially less than the carrying costs of individual debts, and in that sense there is a positive reason for paying down personal debt.

Mr Baird: A theme that we've seen developed over the last two or three years: Some people have said that the

provincial government of Ontario, regardless of which party is in power, has no impact on job creation, that things like the United States economy, auto consumption, as we heard earlier from my colleague from Scarborough, interest rates, free trade, the value of the Canadian dollar, are 99.9% of the input and the provincial government has nothing to do with the economy, which is sort of interesting because no party ever runs for election to office saying, "By the way, if you elect us for government we will have no effect on job creation." We all want to put forward public policies that will help create an environment where jobs will be created in the private sector; others will be more directly involved per se with that government credit card mentioned by my colleague from Lac-Nipigon.

When you look at the statistics across the country just in the last 30 months in Ontario, we've seen the creation of some 314,000 net new jobs in the private sector in Ontario; 68% of the job creation in the private sector in Canada has taken place in Ontario. What do you think accounts for the economic growth which has been so substantially higher than any of us expected? In 1997 the Ontario government I think had said 3.2%; it was 4.4%. You had said 2.5%; it was 4.4%. So both the government and yourself were way off. What do you suppose is going on in Ontario that just simply isn't taking place in the rest of the country with respect to economic growth and job creation?

Mr McCracken: A good part of this is simply that you are the largest province and you pick up a larger number of jobs from the sheer size. To the extent that a lot of the spending has been in durable goods areas, these durable goods again tend to be concentrated in Ontario, 50% to 60% of the auto sector and many of the other durable sectors here. So I think some of it is more a question of size and distribution of the output than necessarily good management.

There is a good question as to whether governments can determine the output or whether it is all a lottery that we are involved in. My suspicion is that you can do something about it and I think the test is, are people moving into the region to find employment, are firms starting up new businesses, is business investment expanding in the region? On these points certainly the record over the last year or two suggests quite positive things for Ontario. Let's say where private decision are being made, those decisions are being made in a way which says, "We're going to expand here rather than in Quebec" or "We're going to have people move from Atlantic Canada into Ontario." By and large, those are happening. They're not happening as a watershed flow-in, but it certainly is better than the problems in the recession in 1990-91, when there were substantial outflows.

There are certainly some things to look positively to. How much of those are attributable to government activities? I would say some; some federal policies as well, and then some also at the municipal level. The municipalities have a lot to do with particularly locational decisions, about where people will locate a new company, or will an employer in a particular company expand there or decide to branch out elsewhere. I don't want to take governments off the hook, because I also want to continue to hold them responsible in the future for progress. The big challenge, John, is to just keep doing it. Then if you do it really well, at the end of four years they'll thank you.

Mr Ted Arnott (Wellington): Thank you, Mr McCracken, for coming in today. You're an economist with considerable expertise and you've shared with the committee a somewhat different perspective than some of the other forecasts we've heard, so we should obviously review your comments with a great deal of interest.

I have three questions for you. The first one is related to the debt. You indicate in your list of things what not to do in the coming year: The government shouldn't focus on running surpluses and reducing the debt. I'd just like to point out that in the two hours this committee has been sitting this morning, we have probably borrowed another $1 billion. The total outstanding debt for Ontario amounts to about $9,000 for every man, woman and child, and this year we're spending in excess of $9 billion on interest, which is the fastest-growing government program right now, and more than we spend on hospitals, for example. The debt is a serious issue, and I think we should be focusing on how we're going to reduce it in terms of its overall size. I would ask you why you don't think debt reduction is something we should be focusing on in the coming year.

Mr McCracken: Let me take two economies, one in which we have more people working and less debt and one where we have more people working and the same debt. Presumably we would all agree that in that world in which we have more people working and lower debt, that's even better in some sense. The issue becomes one really of, what if we have an economy with, say, 10% unemployment but a lot more progress being made on the debt ratio, in comparison to an economy in which we have, say, 6% unemployment but the debt ratio is not moving down as quickly as we would like to see it? Which would we choose there? That's where you get into the question of values. You get into a question of what matters.

It strikes me that at least for the time being we're in a world where employing people is crucial. Our primary means of distributing income to people is to give them earned income in a job. When significant numbers of people don't have that option or when you take, say, an 8% unemployment rate that translates into about 25% of the people experiencing some bout of unemployment during the year, then it seems to me you've got a problem. Really fixating on that problem, putting more weight on that problem is what I would suggest, rather than worrying about the progress you're making on the debt ratio. It would be a lot easier for you to make that choice if interest rates were lower, because then you would be under less pressure of your debt instability running off on you. That is not something you necessarily have control over, I realize.

Mr Arnott: Job creation is a very high priority of the government, trying to encourage companies to hire people.

There's more evidence in the paper today, a Globe and Mail article saying that small businesses are creating a disproportionate number of the new jobs, while big businesses are still in a net sense probably shedding employees. What specific steps would you recommend to the government to encourage more small businesses to hire more people in the coming year?

Mr McCracken: Most small businesses serve the domestic economy when you scratch — there are some in the export sector, but they're basically dependent on what's happening in retail or in the local area. Anything you can do to improve domestic incomes and buying power will certainly be a plus in that, anything you can do to do direct job creation in specific areas, either directly through firms or directly through increased spending on health, education, all the things you were hearing about here earlier, all those will in some sense fuel a domestic economy that's stronger. That is probably going to be necessary anyway, because I suspect that those who are on the international side are going to find it tough sledding.

The Chair: I'm afraid I have to interrupt and stop there. We've exhausted our hour. It has been most interesting and most informative, and we thank you for your time and your presentation.

Mr McCracken: My pleasure.

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ONTARIO EDUCATION ALLIANCE

The Chair: The final presenter for this morning is the Ontario Education Alliance. Welcome and thank you for your attendance here this morning.

Mr George Martel: It's a great pleasure to be here this morning. I should say first, I'm the co-chair of the Ontario Education Alliance, which is an organization that has over the last couple of years been putting together our teachers, our school board workers, our parents, our students and just plain concerned citizens to see if we can't come together and develop not only short-term policies to deal with the present crisis the Ontario school system is now dealing with, but long-term ones as well. We're trying to put together an organization that will be with us for the long haul.

There are a couple of people I'd like to introduce you to this morning: Jacqueline Latter, who is our provincial organizer, a former chair of the Ontario Parent Council and someone with three children in the Toronto school system; and Hugh Mackenzie, whom you will recognize from another incarnation, who is here, however, as a parent of children in the Toronto schools and as the co-chair of the finance committee of the Ontario Education Alliance.

I want to have Jackie make a few comments, and then Hugh will be presenting our main brief this morning, but I just want to say to you generally that I think I can say without any hesitation that when we look at all of our constituencies, I know they would all want us to encourage you to encourage this government to back off from what appears to be another really very disastrous round of cutbacks to our publicly funded schools and to come up with a funding formula that recognizes the real cost of educating children in Ontario schools.

With that said, here's Jackie.

Ms Jacqueline Latter: My name is Jacqueline Latter and I'm a parent of two children in the Toronto school system. I just want to remind this government once again that education is not a privilege; it's a fundamental right in a democratic society. Our children are not clients, our children are the future citizens of this province, and as such, every single one of the children in this province deserves an equal right and an equal access to opportunities given to them by education.

The tax structure that funds education must be designed in such a way that allows community input at the local level, and our health and social services, which are also fundamental to a democratic society, must be funded not just adequately but appropriately and generously.

I'm not going to say very much more, because I believe Hugh Mackenzie, who has done enormous amounts of work and research on alternative budgets, can give you much more insight into this process than I can. But I would strongly urge you, especially the government members, to listen. There are other ways of doing things. There are better ways of doing things. We hope you will choose to listen and do things better than you have been doing up until now.

Mr Hugh Mackenzie: You'll be glad to know I don't intend to read through the piece of paper that we handed out; instead I'd like to speak to it. What I'd like to do this morning is try to step back a couple of steps from some of the overheated rhetoric about what has happened to, for example, the commercial-industrial tax system in Toronto, and look at education funding from a perspective that's a bit distant from that debate, the hope being that we can persuade the committee to urge the government to start to look at education finance reform as an exercise in education finance reform rather than a fiscal exercise, an exercise in shuffling money around to make things balance and to give government the levers to make things balance.

To start off, I'd like to just spend a few minutes talking about the system that we inherit. The system that we inherit I guess has its origins in the Smith committee report in the late 1960s. The Smith committee was the last major tax reform initiative, public consultation exercise in Ontario prior to the Ontario Fair Tax Commission. They spent a lot of time looking at local government finance and recommended that the provincial government of the day assume responsibility for funding 60% of the cost of public education in the province. At that time Bill Davis was the Minister of Education and then shortly thereafter became the Premier, and the government of the day accepted the recommendation of the Smith committee to move to 60% funding and quite radically transformed the way funding was provided for education in the province.

The 60% funding program existed for about four years, and beginning in 1975 a succession of provincial governments began to look to the education funding formula as a way to generate cost savings in order to deal with fiscal

constraints, and that's been a process that frankly has been repeated consistently ever since.

What happened when fiscal constraints started to impinge on the formula? I don't know whether they ever had this conversation, but at least notionally the Ministry of Education had to decide whether they were going to admit that they were funding less than 60% of education costs or come up with some sort of fiddle that allowed them to pretend that they were still funding 60% of education costs when they weren't. They chose to do the latter. They began to create a parallel universe in education finance called "recognized education spending," and they came up with a formula, which they were never successfully able to explain to anybody, that established a number called "recognized education spending" and the province committed itself to fund 60% of that number.

One of the problems with creating a parallel universe is that as time goes on, it separates itself further and further from the real world. That's what happened to the education funding formula in the province, to the point that by the early 1990s the parallel universe was only 60% of the real world and the 60% funding formula actually translated to provincial funding for about 36% of total education costs.

There were a number of consequences of that evolution. One of them was a great deal of pressure upwards on commercial, industrial and residential property taxes, because they move in parallel, in major urban areas. The school boards in those areas, having the misfortune of living in the real world rather than in a parallel universe, had to try to meet local needs. They did so by using their right to access the local property tax base, and that generated some of the pressure on commercial-industrial taxes that was the subject of so much discussion a week and a half ago.

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The other thing it did was drive inequities further into the system. It did that because as the parallel universe shrank relative to the real world in terms of education financing needs and school boards found themselves having to resort to access to local resources, it started to become increasingly a factor in what school boards were able to do to meet local needs. How much money you could raise from the local property tax base was increasingly a factor. You had fiscal capacity constraint issues that started to drive inequities in the system, and not surprisingly, the most extreme of those inequities is between public school boards and separate school boards that occupy the same geographic area.

When I say "not surprisingly," the reason is that as a practical matter a separate school board cannot levy a local mill rate on its supporters that is dramatically higher than the local mill rate on the supporters of the public system, and given that the tax base to which separate school boards have access is smaller, basic arithmetic tells you that the separate school system is going to be even more constrained by the separation of the real world from the parallel universe of the Ministry of Education's funding formula than the public system is.

That's where we sat in 1995. We had a system in which the funding formula was essentially irrelevant to what was going on in most of the school boards in the province and a system that was guaranteed to drive inequities into the system. As parents, we're not denying that there are inequities in the system; in fact, there are representatives of both teachers and parents in the separate school system as part of the Ontario Education Alliance. What we're saying, though, is that it is not either accurate or helpful to start the conversation by saying that the problem with education funding is excessive spending by large public school boards. It's not a helpful way of starting the conversation and it's not accurate. It would be accurate to say that the issues we confront with education funding now have to do with the cumulative impact on both the total volume of spending and its distribution of a progressive process over 25 years of the education funding formula becoming irrelevant to real educational needs and the impact that has had on driving inequities.

That's what we came to in 1995. It seems quite evident to an observer looking at this from the outside that the main driver of the education finance change the government has put in place to date has been the province's fiscal needs. I doubt that I need spend a lot of time citing evidence to that effect. I think the most glaringly obvious example of that is that for a long time through this process it was a matter of principle that residential property taxes shouldn't be required to fund education, and then, all of a sudden, an extra $2.5 billion was needed to make the download work and that was no longer a principle of education finance reform. We have an exercise that is substantially fiscally driven, and I would argue that much of what has happened around the structure of education funding allocation has been driven by the need for the province to make its fiscal equations work properly.

Having started with the fiscal agenda, we're now going through a process of creating an education finance reform agenda tacked on to the back of it. We've got an education finance reform agenda that is driven by a whole series of assumptions which are untested.

First of all, one assumption is that differences in spending per student necessarily reflect inequities. One of the things that mystifies me about the whole process of thinking about reform of education funding allocation is that we have concluded, in a fair amount of detail, that there is a massive inequity in the funding allocation system when we have no standard against which to measure it. One would have thought that if one were going to conclude that there was an inequity in the funding system, one would want to understand exactly what it was well enough so that one could fix it.

The only way I can see to understand in detail how the inequities operate in the education funding system is first to have an allocation model that one thinks works and then compare what the current system is doing with what you think you ought to be doing. That's not what we've done. What we've done is we've concluded that it doesn't work, turned the system upside down and now, a year late, we're maybe, in the next few weeks, going to get an allocation

formula. It strikes me that's backwards. The image that occurs to me — I use the number 100 because that's about how many boards we've got — is that you've got 100 objects, all of which are different shapes, and you're trying to compare them without a ruler. It strikes me, as I said, that the first job ought to be have been to think about funding allocation. Once you understand what makes sense and what doesn't make sense around funding allocation, then it seems to me it makes sense to start thinking about how you restructure funding, but we've done the opposite.

Another one of the myths, or untested assumptions, that underlies it is that, implicitly, none of the services that are available in some of the large urban boards would be of any value to students who attend boards in smaller areas that have less resources available to them. There's the implicit assumption that the Ministry of Education and Training's assessment of what's needed to provide a quality education is going to be perfect, that the Ministry of Education, sitting over there in the Mowat Block or wherever it is, is going to be able to determine with perfect precision what's required to provide for the education of a 10-year-old in Sarnia or a 16-year-old in Ottawa or, for that matter, a five-year-old in Parry Sound. I just don't think it works that way.

One of the virtues of the system we've had is that there has been that flexibility. Interestingly enough, every study that has been done of education finance reform since it became a cottage industry in Ontario in the late 1970s has concluded that, whatever else you do, you ought to retain a safety valve in the system, you ought to retain some ability for local school boards to vary the amount that's spent, because they're the people who are on the scene, they're the people who can determine whether something is needed that the Ministry of Education won't fund. That's one of the reasons they've all said that.

The other reason they've said that is because they have concluded — something that perhaps is obvious — that historically, if you look at the development of the education system in Ontario, the source of innovation has not been the Ministry of Education, the source of innovation has been in local school boards. If you cut off the ability of local school boards to innovate, because you've cut off their ability to vary the amount they spend from the provincial formula, then you're cutting off the ability of the system to respond effectively to change. One might wonder, for example, where we'd be in terms of our ability to serve immigrants whose first language is not English if we had had a straitjacket formula for funding education applying to the boards in the Toronto area since the 1950s.

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There's the assumption built into this that we're spending too much on education in Ontario, certainly that we're spending too much on education in the large urban boards. But there's no evidence to that effect. The only evidence I've seen looks at spending in school boards across North America and finds that Ontario is right down near the bottom. Ontario is not a high-spending jurisdiction and, as I said, there is no evidence that we're spending too much on education in Toronto or Ottawa or Windsor or Hamilton. There is some evidence to suggest that separate school boards and school boards in areas with fewer local fiscal resources do not have enough. But how much? Unless we have a model for funding allocation that helps us understand that, we can't come to any conclusions.

In the interest of leaving some time for some questions, let me just summarize what we think should happen. First of all, we think the government should suspend the implementation of education funding reform. There are just too many things that are not well thought out, there are too many questions that are still to be answered, and we're getting very close to the end of the day.

Second, there are areas of the province where there are obvious and pressing needs. There are school boards, particularly in the separate system, that have been running deficits because they can't meet the needs with the fiscal resources they've got. Those issues ought to be addressed immediately.

We should extend the process for discussion and evaluation of a funding allocation formula. It is a crucial piece of this puzzle. To have us rushing hell-bent for leather towards a deadline of having something in place that will enable school boards to budget for September and we don't even have it yet just strikes us as completely bizarre. If we can go through a rational process of developing a funding allocation model, then we can start to focus in on where the actual spending differs from it and have a discussion about why that's taking place and what needs to be done to address it.

I think we have to come to grips with the question of whether it is possible to simultaneously improve the system, improve equity in the system and cut its funding base. We have a lot of trouble understanding how that's possible. We'd like to see the evidence that suggests that's possible. We have a great deal of trouble with the idea that our children's education is going to be put at risk while we experiment to see whether or not that's the case.

Finally, I'll just repeat what must have been obvious from the earlier comment I made, that at the end of the day one of the things that needs to be a feature of the system is the reintroduction of some kind of safety valve that allows school boards to address problems that emerge in the funding allocation formula. I don't think anybody can create a funding allocation formula that's going to be perfect, that's going to recognize perfectly the needs now and in the future of every school board in the province. That's one of the reasons, as I said, everybody who has looked at these things in the past has said that there ought to be some local funding option in order to provide that safety valve.

The Chair: Thank you very much. We have approximately two minutes per caucus.

Mr Wettlaufer: Thank you for appearing before the committee, although I have to say, Mr Mackenzie, I think much of what you've said is use of smoke and mirrors. There is a lot of talk about funding of education. This

year, at $14.4 billion, spending on education in this province is the highest it has been in history.

You talk about the ability of boards to fund. I think the individual boards have demonstrated over the course of the last number of years where their funding priorities have been.

You talk about spending in the classroom. You drew attention to the study that was done and you talked about how Ontario certainly is not the lowest. No, it's not the lowest but it's among the lowest. When you take out the cost of teachers' salaries and benefits in other jurisdictions and in Ontario and you look at the amount of money that is being spent on the children in the classroom, we are among the lowest in North America.

Why is it that during the public hearings we heard from many boards that they only had $3,600 or $3,800 a year per student? Those same boards were putting their textbooks together with elastics and string. Those very same boards were using textbooks from 1976 or 1986. Those very same boards had one computer for a classroom of 35 or 40 students.

I believe every student in the province of Ontario is entitled to the opportunity for an equal education, whether they live in Metropolitan Toronto, Peel, Ottawa, Windsor, London or northern Ontario, and the only way we're going to do it is through a provincial-government-mandated funding formula.

The Chair: Thank you. I have to interrupt you there and move to the Liberal Party.

Mr Kwinter: I'd like to follow up on Mr Wettlaufer's comments from a different perspective. There seems to be a one-size-fits-all mentality, and Mr Wettlaufer just talked about it, saying if you take out teachers' salaries then there is a fairly reasonable allocation of funding vis-à-vis other jurisdictions. The problem is that a teacher requires more money in one location than they do in another location. Realty taxes or services are required more in one location than another location. There's got to be some kind of formula that takes into account the costs involved. Otherwise you have a situation where you can apportion exactly the same resources across the board for every single student but there is a built-in inequity. I don't know the solution, quite frankly, because it's not easy, but I thought maybe you might have a suggestion as to how that could happen.

The Chair: If you have, you're going to have to keep it to yourself because our time is up.

Ms Churley, you have a minute and a half, two minutes.

Ms Marilyn Churley (Riverdale): Thank you for coming today. Let me give the panel an opportunity to respond to the comments made by both other parties. I'd be very interested in hearing your response.

Mr Mackenzie: To Mr Wettlaufer's comment let me just say my point is that we ought to have a funding system that provides excellence for everyone. One does not do that by taking money away from those school boards in those areas of the province that have had the ability to provide the resources that are needed.

To Mr Kwinter's comment let me just say that what you've got your finger on is that equitable funding and equal funding are not the same thing. Because of that and because of the evident problems with the current system, that's the basis for our saying, let's step back, let's do a careful job of debating and discussing and evaluating options for the funding formula before we go ahead and turn the system upside down. That's the concern. The concern is that we're going to screw this up, and the people who are going to pay are my kids and other people's kids, not the people in this room.

The Chair: Thank you very much, sir, for your presentation and for your attendance here today.

That concludes the presentations for this morning. We'll be recessed until 1:30 pm this afternoon.

The committee recessed from 1200 to 1330.

ONTARIO ROAD BUILDERS' ASSOCIATION

The Chair: We'll commence the afternoon proceedings, with the first presenter being the Ontario Road Builders' Association, Mr Bradford. Thank you for your attendance and welcome. We have 30 minutes.

Mr Robert Bradford: Thanks very much, Mr Chairman. I'll probably be considerably less than 30 minutes, unless you've got a whack of questions after I'm done.

It's a pleasure to meet with the standing committee again this year on behalf of my organization, the Ontario Road Builders' Association. I'd like to bring to you today three issues which we believe to be of considerable importance as you go into your budget deliberations.

As a brief introduction, our association has represented the roadbuilding industry since 1927, and our members are the majority of contractors who build and maintain the province's provincial highways and municipal roads. I'd like to add that the Ontario Road Builders' Association remains strongly supportive of the current government's economic objectives and initiatives.

The three issues I would like to bring to your attention today are the province's commitment to investing in its highways and bridges, the growing dilemma at the municipal level, and the need for a longer-term approach to planning the provincial highways program.

The first subject is one I suspect we've been bringing to the committee since 1927. Unfortunately, for the past two decades at least, our provincial highway system has been deteriorating because we can't seem to find enough money to bring it closer to the standards Ontario enjoyed in the 1960s and early 1970s. If by chance this brief has been passed out and you're reading there "1660s," excuse the typo.

We all know the challenge. The auditor laid it out pretty well in 1995 when he said we need to invest $580 million a year simply to meet our minimalist policy of treading water. We are still falling well short of the required investment level and are moving closer to the major reconstruction costs about which the auditor warned.

In past years, we've gone through the exercise with this committee of bringing out the statistics and reports showing why investment in the provincial highway system is a sound one. We would show you how good jobs are created, public safety is enhanced and user costs are reduced, and we would talk to you about economic growth, the export market's reliance on trucking, and the competitiveness of Ontario businesses.

The statistics are still available and we can provide them to you again, but I won't take your time in going over them again this year because we don't believe this government needs to be further convinced about the relationship between our highway system and Ontario's economic future. Certainly many of you and your colleagues have expressed to us a considerable depth of appreciation for the economic linkages. I think most of us accept now that a good highway system pays social and economic dividends. The only challenge remaining is to make the appropriate investment.

The second issue I'd like to bring to the committee's attention is that of the municipal roads system. Last year we sounded some warning bells in our presentation to the committee. We told you we were worried that the municipal roads system might suffer from the effects of downloading 5,100 kilometres of provincial highways and from changes which moved 100% of the costs for municipal roads to the local property tax base in replacement of a system of dedicated provincial subsidies.

This year we're here to report that some of the concerns we have are already being realized and the future for the municipal roads system is not promising. I notice you have on your agenda later today a delegation from the Association of Municipalities of Ontario. I suspect they will raise this issue as well from their perspective, and I don't suspect it's too different from ours.

In a speech last November, a gentleman named Denis Merrall, who is currently the president of the Ontario Good Roads Association, made it clear how we can expect many municipalities in Ontario to respond to the situation. Essentially, he said that investment in roads will be at the bottom of the priority list behind more politically attractive priorities such as health care, food banks and even community arenas. Where some money is available, it will be spent on local roads, not on the new highways transferred from the province. I am aware that there is a good chunk of money, a onetime payment, that went along with the transfer of roads. I'm here to tell you right now that the municipalities are not going to spend that money on their roads. That's been made very clear to us.

Mr Merrall predicted that municipal roads and bridges which cannot be maintained properly will be closed or posted for load and traffic restrictions. These are not idle threats, because it's already occurring.

The problem of municipalities which cannot fully meet their new responsibilities for the local roads systems is one which eventually must be addressed by the provincial government. If municipal roads are allowed to deteriorate further, it will be a provincial problem, because our roads system is interdependent regardless of jurisdiction.

At the risk of sounding like a broken record, and I know full well the committee's position on the matter, we will again offer what we see as the most reasonable solution. That is dedication of a portion of the provincial fuel tax to the provincial highway system and a portion to assist municipalities with their roads. I remind the committee that road users already contribute over $3.2 billion a year in road taxes, and less than a quarter of that will find its way back into maintaining our roads in the coming year.

The final issue I ask the committee to consider today is the need for a multi-year approach to our roads infrastructure. As it stands, each year the Ministry of Transportation has to wait until the budget comes down in April or May before it can advise our industry about what work will be called that year. Then it's a mad scramble to get tenders called, resources in place and the work completed before the weather ends the construction season in November. This approach is inefficient and has significant costs to both taxpayers and the roadbuilding industry. With advance planning, the industry could make more rational business decisions to respond to the ministry's changing needs. It could put in place its equipment, workforce and materials in a more efficient manner and make things more cost-effective for everyone.

We quite frankly do not understand the reluctance of the government to allow the Ministry of Transportation the flexibility of multi-year capital planning. If it is a matter of not wishing to commit to specific spending levels, then it should be possible for us to say we have a base amount of money every year that we know we're going to spend — I would suggest $400 million is about the right figure to start out as a base — and to commit that amount to allow for planning to go forward. Then government could supplement the base each year in the budget announcements.

I attended a meeting last week with the Alberta Minister of Transportation, and I would recommend to you that province's practice of operating under a three-year rolling capital plan. That's for their transportation department. Each year, the third year of the plan is added, depending upon the government's priorities and resources. As well, each year supplements to the planning base are also announced. The system allows their Ministry of Transportation to advise the roadbuilding industry and its suppliers where the program will be concentrated, which in turn allows our industry to make appropriate capital investments and business decisions. It makes a lot of sense to us, and we fail to see where the downside is to such a planning approach.

I would like to thank the committee today. We do appreciate the opportunity of meeting with you again this year, and I look forward to meeting with you again next year to follow up on some of the issues we have raised.

The Chair: We have approximately six minutes per caucus, and I believe I'm going to start with the New Democratic Party.

Mr Pouliot: Mr Bradford, greetings. Ontario Road Builders' Association: It rings a bell indeed.

Mr Bradford: It certainly should, sir.

Mr Pouliot: But you're right, Mr Bradford, and your brief mentions that times were difficult. Times are more prosperous now. The evolution of just-in-time-delivery truck traffic keeps increasing, door-to-door delivery.

You have mentioned the multiplier in your brief. For every dollar spent on capital, there's a multiplier which takes on somewhat extraordinary proportions. You get the money back.

As road builders, and it's not imputing motive, Mr Bradford, your mandate in life is to build.

Mr Bradford: Absolutely.

Mr Pouliot: To build to standards and for profit. There's nothing wrong with that; it's most honourable.

I don't find inside the consortiums, à la 407, your association necessarily. I do find some of them too. I have the expenditure estimates, the reduction in commitment, and I'm trying to marry, to web, to blend this with your proposal with your Alberta recent exposure and experience. Alberta is not as far politically as it is geographically from policies that are designed in the United States of America, preferably the southern states, people who adhere to the same political denomination, if you wish, except that the people opposite are a little more to the right, but it's easier said from me.

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Do you see with the devolution, the downloading you've mentioned, any chance that the municipalities, when they're faced with other problems, will give the highways, the roads, the necessary priority, or do you feel that, not because they wish to do so, but since they will be competing with other downloaded issues, roads in our small towns, access roads all over the province, might not be getting the treatment that they would should the Ministry of Transportation have a hands-on attitude like in the past years? You say that you begin to see a difference. Would you give us some examples?

Mr Bradford: Just for one example, we've recently been advised, and you're probably aware of the situation in Prescott county, where one of the connecting links that was transferred from the province, the county has said, "We can't afford to maintain this road," and they have reduced it to local traffic only. Therefore, vehicles carrying commercial goods now have to bypass that particular highway. That's one example.

You're quite right. I mean, you've picked up on the point I made in my presentation. We're very concerned about municipalities because, as you say, roads now have to compete with all those other perhaps more attractive spending priorities. Public opinion polls will tell you, talk to the man on the street and he'll tell you, certainly he wants good roads, but when it's a difference between his roads and his health care system, he's going to vote for health care. That's why the system that we previously had where the provincial government matched dollars in the municipalities and the money was dedicated to roads took it out of that political sphere and allowed us to do the right thing, and that's maintain our road system.

Mr Pouliot: Mr Bradford, you would know better than most, as well as anyone, approximately 23,000 kilometres of highways in the province, some 3,000 bridges, from time to time those facilities, those links, need minor and major repairs. We know that Ontarians give upwards of $2 billion a year in taxes to Revenue Canada and Revenue Ontario. I mean, they're insatiable. Some people have referred to those people as organized crime. I wouldn't go this far, I wouldn't abuse my privilege or immunity.

Mr Bradford: Nor would I.

Mr Pouliot: But do you feel that, given the fact that a road will last anywhere from 12 to 15 years before major work must be done, the set portion of the money Ontarians give at the pump — every year we would know, you've mentioned $400 million — some of that gas money that Ontarians pay so dearly for would go back into the road system, that you wouldn't have to deal with the VAT and the black hole, the discretion of the general fund, which is the privy of the Premier and his cohort the Minister of Finance, that the general public who pay the full freight for that would at least see roadbuilders build and maintain good roads?

Mr Bradford: We certainly see a dedicated fuel tax as a proper response to the funding situation we're in.

Mr Pouliot: I think you illustrate this and —

Mr Bradford: We've proposed that for several years and we continue to propose it although, as I mentioned, it sometimes feels like flogging a dead horse. But it is a good idea.

Mr E.J. Douglas Rollins (Quinte): I think that was an excellent idea brought up by my colleague there, particularly when he was the past Minister of Transportation. I would have thought he would have put that in place when they had the power in the government to do that. I don't know —

Mr Pouliot: On a point of order, Mr Chair: It has no bearing here. We're dealing with the future, Mr Rollins.

Mr Rollins: Oh, I see, the past doesn't count. That's why you sold your Bre-X stock too.

One of the things I think you as an organization certainly can put some — I know our Minister of Transportation has been asking, and with the Liberals having 102 seats in Ontario, and that represents a large chunk of Canada as far as the representation is concerned, that there should be some pressure put on Ontario to get our fair share back. We certainly are giving more in other grants too than the road tax.

Over the last couple of years I have listened quite closely in the House and heard our Minister of Transportation state how much more asphalting we had done in the last year or so than in the previous three or four years. Is there some sign of improving?

Mr Bradford: I think this government has demonstrated a commitment to attempting to catch up on the infrastructure. Certainly the capital program in the last couple of years has been healthier than it has been in the past. But I think the new Minister of Transportation — we've spoken with him and he appears very committed to the kinds of things we're talking about — would admit to you

that we still need to come up with the shortfall. The Ministry of Transportation has a stated policy at the moment of attempting to keep the roads from deteriorating any further; that doesn't even speak to improving them or building new roads, and we are not quite meeting that. That said, there certainly have been signs of a commitment from this government to attempt to get us there.

Mr Rollins: What's your feeling on the new road north of Toronto, the 407, with the private enterprise basically into it? What's your feeling towards that? Is that a more expanded way to go? Would you advise that?

Mr Bradford: I certainly think that in the future when we're looking for ways to pay for our roads, we're going to have to turn to more private-public partnerships. I would warn, however, that we seem to be seeing that as some kind of panacea, and private sector involvement will only occur where there is an appropriate revenue stream. I hear governments talking now about: "Let's get the private sector just to maintain our roads. We'll give it to somebody for a few years and he'll maintain it." But where's the revenue stream? The private sector of course responds to profit-making opportunities, so I'd be careful about seeing that as the answer to all of our funding problems. The public sector is still going to have to accept and continue some responsibility for funding roads.

Mr Arnott: Following up on one of those questions that my colleague asked you with regard to tying a certain percentage of the gasoline tax to expenditures on roads, I see from the budget — this isn't the exact expenditure on roads, but the Ministry of Transportation in the present fiscal year is going to spend about $1.1 billion in capital. In our gasoline tax plan we're expecting to take in almost $2 billion. Those are the rough numbers we're dealing with, I suppose.

Mr Bradford: We won't get down to arguing numbers right now, but add to the gasoline tax also all your licensing fees and all the other taxes that come directly from road users. From your $1.1-billion capital figure, the Ministry of Transportation is also responsible for public transit and other forms of transportation. About $750 million typically will go into roads.

Mr Arnott: So what percentage of the gas tax would you like to see allocated to roads? We've heard this from a number of presentations and they make that general statement. Is there a specific —

Mr Bradford: I think before I throw out a number, because the difference between one cent and two cents is a heck of a lot of money, if you're interested, I'd be glad to get back to you with a number to suggest. I'm not prepared to do that today.

Mr Arnott: You've said you'd like to see the Ministry of Transportation pursue a multi-year approach to roads infrastructure. On our Ministry of Transportation capital plan we have a five-year plan but we —

Mr Bradford: We're not privy to it, though.

Mr Arnott: Okay.

Mr Bradford: And that's the point, that they are afraid to share it with us, quite frankly. They're afraid that if you start putting out things like that, the industry will hold you to a promise or not understand that it's flexible, so without that annual budget announcement they will not provide us with any information about what's coming ahead.

Just to give you one example, I suggested that entailed significant costs. Last year the bulk of the program was not revealed until early June, which is unbelievably late even considering most years. A lot of the asphalting, as Mr Rollins referred to, required a specific type of aggregate. In the middle of July, none of that aggregate was available. Some manufacturers didn't have any; others had to put in extra production to produce it. Anyway, the cost went up tremendously. With a little bit of advanced planning, had we known that program was being rolled out, those aggregates would have been stockpiled.

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The Chair: Mr Bradford, I must interrupt you at this point and turn to the official opposition.

Mr Kwinter: Mr Bradford, would you just explain to me the way the highways are financed? I notice in the proposed budgetary plans there's $1.2 billion effectively earmarked for capital. Is that for new highways, or do they capitalize the repairs?

Mr Bradford: They certainly do capitalize the maintenance part of the program. What we saw last year, and I hope it will be similar this year, was about $500 million into the capital side of the program that is for maintenance and new construction, and there is virtually no new construction going on at the moment or in the foreseeable future. Roughly $250 million more is for the winter and summer maintenance of our roads.

Mr Kwinter: When the auditor says that you have to invest $580 million a year just to stay even, what is the shortfall in that?

Mr Bradford: I would suggest the shortfall is somewhere between $100 million and $150 million at the moment.

Mr Kwinter: What are the repercussions of that? In other words, they also state, and you state in your presentation, that it will require major reconstruction costs unless these levels of financing are provided. What is your time frame?

Mr Bradford: The implications are quite severe, and as I said, we have discussed it with the committee in years past. I'd refer you again to the auditor's report which laid it out quite clearly. A typical pavement has a service life of about 15 years. If you go in and do your proper maintenance and your rehabilitation, in about year 12 it will cost you roughly $80,000 a lane kilometre to do that work. If you don't do it right in there around year 12, if you let it go for two or three more years, rehabilitation is no longer an option; you're into reconstruction at roughly a quarter of a million dollars a lane kilometre. There's a two- or three-year window there where the proper maintenance and rehab has to be done or we've lost it and we're into huge future costs.

Mr Kwinter: I also assume that the $580 million referred to by the auditor referred to the roads that were then under provincial jurisdiction and some of those roads

have now been transferred as a result of this downloading to municipal jurisdictions. So there's a good chance that money will not be applied because of the concerns that you've expressed because of other priorities. How is that going to impact on what is happening?

Mr Bradford: I haven't even begun to entertain the possibility that because the province has downloaded 25% of its roads that might affect the capital budget in the same way. We have asked that question and we've been told, "Oh no, there's nothing there." If that were to happen and if that's your question, I guess it would leave us in roughly the same position we are now, not able to reach that break-even point. I suppose, given that 25% of the system has now gone to the municipalities, if we could maintain capital budgets in the neighbourhood that we've been seeing in the last couple of years, we might be getting there.

Mr Kwinter: The major roads like the 407 are provincial roads and will continue to be maintained by the province. Have you done any studies to determine what the impact will be on the transportation grid by, for example, the one you just gave us about a road that is going to be restricted to local traffic only? What is that going to do to the transportation grid and how is that going to be impacted in our ability to move goods and services across this province?

Mr Bradford: I don't have any facts and figures, we haven't studied that directly, but certainly you know the related kind of figures you look at. Apparently up to 15% of the cost of the goods is in trucking, and that rises to about 45% when you're talking about bulk commodities. Just in a general sense, if your trip to your destination is rerouted or is over bad roads or whatever, those are the kinds of costs that you're adding to your trucking costs. In a very simplistic way, that illustrates the kind of economic impact the non-use of roads would bring.

Mr Kwinter: I also imagine it's going to have some impact on plant locations.

Mr Bradford: Absolutely. I tell a little story, and I think I told it to this committee last year. I met with Ivan Grose, a member of Parliament from the east end, about a year ago. He tells the story of a company coming in from Japan. They were looking at locating an auto parts plant in Whitby. They came in at Pearson Airport on a Friday afternoon about 4 o'clock, and by 6 o'clock they hadn't reached Whitby, so they turned around and left. That was it, end of deal. I assume that's a true story. I heard it from one of your federal colleagues.

The Chair: Thank you very much, sir. I appreciate your time and your submission.

COUNCIL OF ONTARIO CONSTRUCTION ASSOCIATIONS

The Chair: Our next presenter is the Council of Ontario Construction Associations. Gentlemen, welcome. Thank you for coming.

Mr David Surplis: Thank you very much. It's great to be back here again. I'm David Surplis and this is David Frame, the two Davids at COCA. I guess if you phone our number and ask for David, you're always going to find somebody there. That's service.

Thank you for inviting us again. I don't know how many years this is, about 15 years I suppose, we've been coming here as the voice of non-residential construction in Ontario. We will remind you, as we always do, that we represent the non-residential sector of construction.

We have a sister organization, as you know, the Ontario Home Builders' Association, who very ably look after their affairs. Last year at this time, we pointed out that the home building industry was starting off on a good boom cycle. It seems to be sustaining. We, on the other hand, have not been doing as well, at least for the last eight years.

As I point out in my notes here, I suppose the best-known symbol of our sector has been the mothballed Bay-Adelaide centre downtown, a building that started with such great promise, then was capped and became a parking lot and a park. That's just to remind you of the distinction between the two sectors.

Actually, to stir your memory a bit — it was a surprise to me when I looked up the figures for you — in 1990 our sector here in Ontario contributed $15 billion worth of work to the economy. As Mr Eves pointed out in his statement on December 12, his department was estimating that ICI or non-residential construction in 1997 would be at the level of $5.5 billion. So we're at roughly one third of the capacity we were exhibiting in 1990, just to put that in perspective. As you know, for a variety of reasons, capital expenditures, as Rob Bradford mentioned just before us, were down for many years, billions below the "normal."

Statistics Canada tells us that from 1988 to 1996 our workforce dropped from 350,000 to 265,000, or 85,000 jobs. That kind of statistic seems to miss a lot of people's attention. Everybody was all excited about the loss of jobs in the proposed bank merger or the K mart takeover. The 85,000 jobs lost in the construction sector — those are actual jobs lost; that's not a reduction in the workforce, which is even greater — is more than six times the loss of jobs projected for the bank and the K mart takeovers.

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At any rate, things are starting to turn around. As David and I are finding, our members are telling us there are more jobs to bid on and so on. We want to pay our gratitude to the government. The announcements of expenditure on hospital restructuring, schools, courthouses, casinos and so on have all helped a great deal. We're very appreciative of that. But we want you to remember that we have a long way to go.

In particular, echoing Rob Bradford's request, we would like to also suggest that more attention, and of course by that we mean more money, be spent on infrastructure, because it really is an investment. Yes, there is the transitional assistance program, but we respectfully submit that municipalities need more help and more direction.

Sewer and watermain systems, for instance, are vitally important in our economy in Ontario. They're not in great shape, as the Provincial Auditor pointed out. We think the time has come to recognize water as a very important resource that requires careful management, the same as any other natural resource.

The reality is that our water supply systems in Ontario are actually a cost centre for most municipalities, because the fresh water supplies are subsidized to the tune of about $500 per year. As the Ontario Sewer and Watermain Construction Association, one of our leading members, has been saying for years, there is no reason why the principle of full cost recovery should not be implemented with regard to water systems in Ontario, with the provincial government setting benchmarks. We urge you and the finance minister to look into infrastructure as a keen subject of interest, because the reality is it's an investment.

We want to thank the government for reducing a lot of the red tape in our field, some of the impediments to business, for reducing the deficit and some of the tax burden and all those good things. We genuinely mean it: Thank you. In light of the depressed conditions we've had, it's a big boost.

We'd like to take a minute today, however, to point out a very serious problem in the Ontario economy, a problem that begins in the construction industry but one that has serious meaning for the government in investment in Ontario. The problem we refer to is euphemistically called "revenue leakage."

We have quite a name over the years for representing the construction industry's interests with regard to workers' compensation. That has been our bread and butter for years. David is our expert, called on by everybody in the industry, and in fact others as well. So we do a lot of research and so on. In doing some research to deal with the board, David found an interesting fact, and he'll tell you about it later, if you want to ask him about it. In 1996 Statistics Canada reported that there were 267,000 workers actually employed in the construction industry in Ontario. At the same time as StatsCan was reporting that number, WCB reported it had 131,000 workers registered for coverage in the construction industry. That's roughly 48% of the workforce reported for coverage at the WCB.

There are reasons why some of that payroll wasn't reported. For instance, self-employed people aren't required to report. But it's absolutely inconceivable, as we say in here, that over half of Ontario's construction workforce is self-employed. That's plain crazy. The only conclusion we can arrive at is that companies are not reporting as they should. They are evading the cost of WCB —WSIB now — knowingly or unknowingly.

There are all kinds of ramifications from this cheating. The average compensation rate for construction is — get this, those of you who haven't really looked at it — $8.64 per $100 of payroll; that's what construction average rates are. It ranges anywhere from $4.39 to $18.50 per $100, which is a heck of a long way from the other rates, which average around $2.

Anyway, employers who do not report their wages and their employees to the board have a large, immediate and unfair advantage in bidding against legitimate employers who pay the freight. If you've got a job that's 80% labour, a non-reporting contractor would have a 7% advantage in bidding over a contractor paying $8.65 per $100 of payroll, and of course it goes up depending on what rate group you're in.

Because construction's share of the unfunded liability — that $10-billion weight that's hanging around everybody's neck at the board — is so large, roughly a third, or at least that's what they've assessed us, of the whole amount, employers who do pay WSIB carry far more of a load than they should and their rates keep rising as the board presses to eliminate the unfunded liability by the year 2014.

David asked the board a while back for some projections, and admittedly they are projections, but it's projected that the average rate for construction for the next 15 years will be $10.73 per $100 of payroll. That doesn't sound like a competitive situation to us at all.

Because rates are rising at such an alarming rate, more and more contractors are evading the cost and going underground. In 1996, for example, there was a 5% to 6% increase in construction activity in Ontario, yet the WSIB recorded a drop of $32 million in revenue from construction; in other words, about a 10% drop in revenue while activity went up.

These figures do not concern you directly. We know that and you know that. The WSIB is a separate entity and independent. We're happy to tell you we're working on that problem with the WSIB, and also our sister organization, the Ontario Construction Secretariat, is studying the problem with assistance from the Ministry of Economic Development, Trade and Tourism.

The points for your consideration are these: If just under half of the construction workforce in Ontario generates approximately $300 million a year in revenue for the WSIB, it seems reasonable to assume that the board is being cheated to the tune of at least $100 million a year, if not $300 million plus.

What we want you to do is think about that number in relation to income and other taxes in Ontario. There's no reason whatsoever to assume that the 52% of payroll that is not reported to WSIB is adequately reported for income tax purposes. Imagine how much the province is losing on personal income tax. Because tax rates are much higher than WCB premium rates, the missing amount for Ontario could be five times what is lost at the WSIB and that could mean a shortfall in provincial revenue anywhere from $500 million to $1.5 billion a year or more. Then there is the employer health tax that may or may not be reported for those purposes, employment insurance, CPP and a host of other programs that are all short-changed. Besides the revenue leakage, a second point for your consideration is that the cost of construction, of course, gets driven up and that doesn't attract investors.

There are a number of solutions possible to our problem and many of them are being discussed inside our

industry right now. One of them is to require reporting of all payments from contractors to subcontractors, compulsory certification or registration of workers, registration of all contractors, including the so-called independent operators, and so on.

The state of Victoria in Australia has done all of those things. It's an interesting study. We've got some literature on it if you are interested in reading it. They've led the way by requiring registration, proof of liability insurance and so on before a building permit is issued. In other words, you have to satisfy all the authorities that you are contributing your fair share. You register to contribute your fair share and then you get a building permit, or you have to give your notice of work, whatever, to the authorities one way or another.

Anyway, our purpose here is to present that problem to you, along with our request for attention to be paid to infrastructure. We're happy to answer any and all questions you have.

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The Chair: Thank you very much, sir. We will start with the government caucus.

Mr Rollins: David and David, I've got two questions I would like your opinion on. With regard to the out-of-province jobs we hear about continually, particularly from some of our members who are very close to the Ottawa area, that come in from out of the province, have they some influence on your construction people? Do you have that concern too?

Mr Surplis: I don't know if it's a concern. We have never as an organization taken a stand against workers and contractors coming from anywhere. In other words, we want to bid on jobs where they are and we have to accept their bidding on ours.

There is an interesting side aspect to it and David will explain it to you. It's about non-payment of WCB when some of them come in here.

Mr David Frame: The accounting we've had from the former Workers' Compensation Board is that as much as 16% of the payroll that's reported to the board for construction is not collected. When we have asked them the reason for that, they've reported to us that the number one reason is contractors coming in from out of province, doing a job and leaving before that is paid. Until Bill 99, they had no way of collecting that. Bill 99, which has just gone into effect in the last six weeks, does give them the power to require payments up front. I don't know if they're going to be doing that or not.

Mr Rollins: We sat here the other day and heard a very passionate presentation by a gentleman from Delta Engineering out of Ottawa. He said the infrastructure money we were wasting was the biggest boondoggle that was ever taken part in. He believed all municipalities could start and earn the right to raise their own capital and everything. He felt it was very misused. I take it you don't support that.

Mr Surplis: I'm sorry, I don't have the benefit of knowing exactly what the gentleman was talking about. If he's talking about municipalities implementing a full cost recovery program so they can run their own capital expenditure programs, that would be fine with us. If that's what he was saying — I'm not quite sure what he was saying. We sure as heck don't see any boondoggle in upgrading water and wastewater systems or roads or any of those things. We think they're all investments.

Mr Rollins: He was pointing out to us that there seemed to be a large amount of mismanagement in that system. It's only one person's opinion. But I wanted to ask you that.

Mr Baird: Thank you very much for our presentation. We heard from an assistant deputy minister at the Ministry of Finance at the outset of these hearings. I'll just quote:

"On the business side, real spending on plant and equipment was up 6.4% in the third quarter. That's the quarterly rate, and that matches the 30% increase at an annualized rate that you saw on the previous slide. That corresponds to business confidence that remains near record levels."

Can you maybe comment on the confidence level of your industry and whether you think the policies of the provincial government have increased confidence and have made things better than they were in 1995?

Mr Surplis: In a nutshell, yes, they have. Construction is a derived demand. We do almost nothing on our own. We have to have investors. They're the ones with the confidence. They want to build something, expand something, move to Ontario, whatever it is they want to do. We don't do that. We get involved to do that, to fulfil those desires of those investors. For eight years, we haven't seen very much. Normal cycles: Everybody knows about the cycles in construction. We've had a long trough, unfortunately, about eight years long. It's just starting to turn around in the last few months, which must, I agree with you, reflect better confidence on the part of investors who want to build something, add to something and so on. We're quite hopeful of seeing many billions of dollars extra work in the next year or two. All the forecasters suggest that's going to be the case.

Mr Baird: Just from my own view, you can see the return of that endangered species the crane coming around this city and my own community in the Ottawa-Carleton region.

Mr Kwinter: Mr Surplis, I want to pursue this revenue leakage. I don't quite understand. Are we talking about the underground economy?

Mr Surplis: Largely, yes. That's what it's usually called, most of it anyway, but a lot of it actually is, as we're finding out in some of our research, unwitting. I was talking to a contractor one day who truly didn't believe he had employees. He thought he was hiring independent contractors and therefore wasn't paying any deductions for them at all. He gave them a paycheque at the end of the week, but he thought they were independent operators. I think, and I stress the word "think," that by any WCB or WSIB test or Revenue Canada test or anything else, that person would be defined as an employer, responsible for paying all those deductions. He wasn't trying to skip out

of anything. He was just chatting away and said that's the way it was and that's the way he did things. I don't know if you'd characterize him as being in the underground economy; it was certainly not knowingly.

Mr Kwinter: The reason I'm asking the question is that in your presentation you say that Statistics Canada reported that there were 267,000 workers actually employed in construction in Ontario. You know that by federal law, every employer must respond to Statistics Canada inquiries. You fill out the forms and you send them in: You have so many full-time employees, so many part-time employees, all of these things. That indicates to me that somebody is filing that information with Statistics Canada saying, "We have these employees." You're saying on the one hand they're telling Statistics Canada that they have these employees, but they're not telling what is the successor to the Workers' Compensation Board, and by extension they're probably not telling the CPP or provincial income tax, federal income tax, all of those things.

I don't understand. I remember that this committee had hearings on the underground economy and people would come in and say, "Notwithstanding that Statistics Canada says there are 267,000 people working, there are probably 500,000, but they're not reported." What I don't understand is why on the one hand you have companies reporting employees and on the other hand it's shown that WCB only has half of those. Can you explain that?

Mr Surplis: Partly, yes. Obviously, there is no cost associated with reporting to Statistics Canada. They don't impose any rates or taxes or levies or anything like that. It doesn't cost you anything to respond to a Stats Canada request.

Mr Frame: We participated in a study that went to the former Workers' Compensation Board a good eight years or so ago, and the study at that time indicated about a 59% participation rate. We were alarmed at that time and a few things were done. The board at that time seemed to throw its hands in the air and say, "We don't know how we're going to get them." The more recent study indicated that the participation rate had shrunk by another 12%, and in that time GST and all sorts of things have come into being.

It's our observation, though, that it's happening just because there's nothing being done, in the case of the Workplace Safety and Insurance Board, to bring people into the system. They don't know you exist unless you report to them or unless a worker has a workplace accident, comes and registers with the board to get compensaion, and somehow they match you up with the employer. But from what we can see, a lot of that matching isn't even happening.

Mr Kwinter: That begs the question, if the matching doesn't happen, do they qualify?

Mr Frame: Oh, absolutely. The act is clear on that.

Mr Kwinter: So the worker qualifies regardless of whether or not his employer has been paying the amount, even though he may have been deducting the employee's share.

Mr Frame: That's exactly it.

Mr Surplis: And if you can't find that employer, the costs for looking after that injured worker, who gets all that he or she or should, are borne by the other employers, the ones who are reporting.

Mr Kwinter: Your industry has long lead times; you don't suddenly start building today. What are the prospects? What do you see? Are there projects in the works that look like there are going to be greater employment for the people in your industry?

Mr Surplis: It's just beginning to start. There was a dip when the trade centre got finished, when the expansion of the convention centre got finished and a great part of the 407 got finished, just in the Toronto area. Down went the numbers a bit. The airport is just getting started; the whole rehabilitation, reinvention really, of the Toronto airport is just starting. There is perhaps the Bay-Adelaide centre, a number of other things. The prospects are good, according to senior members in our industry.

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Mr Pouliot: Gentlemen, welcome. I'm looking at your page 5, and like my friend and distinguished colleague Mr Kwinter, I too am quite surprised at what is being revealed. The figures you state are nothing short of startling, to the point where personally — well, I believe them because you present them; you are the experts in the field and you know of what you are talking. Nevertheless, I'm appalled. I know of a couple of circumstances where you have a single person — in these two cases, it's single mothers on general assistance, on welfare; they're the less fortunate. I can assure you that the present government exercises a diligence, an iron-fisted diligence like never seen before, so I would assume that the same diligence, the same style of operation, because we're talking about tax dollars, would be spread across the board. That's commonsensical. We see no prejudice if we do it across the board and fairly. But I believe you.

Is it because the "black market" is an invitation to bypass all kinds of rules and regulations, or is it the greed for money? I agree with you that you cannot have a level playing field in the bidding process if you start behind the proverbial eight ball, which is not fair. You start as a loser. In this kind of race, you don't even finish last.

You have gone as far away as Australia, the future republic, to indicate to us that they have a better mousetrap, a better system. Would you be in favour of having a compulsory insurance system — long-term disability insurance, life insurance — that carries every worker? I'm not the one saying this. I don't profess that philosophy. However, I must ask you this. Because most employees have some insurance policies, the cost of extra coverage would be between one eighth and one quarter, I heard — that's quite a range — of what the cost is right now from WCB. It would be just as easy to monitor the ticket, the compliance, as the WCB system is now. I'm a believer in WCB — I must repeat this — although I do of course readily recognize that the system is far from being immaculate, that it needs some fixing big time.

What do you see as the solution where everybody gets a fair playing field without spending undue resources, which no government has, and having Big Brother over your shoulder every step of the day?

Mr Surplis: To give you a very quick answer, because I know you're running out of time, the first thing, and it has to be underlined, is that there isn't one penny of tax money in the WCB or the WSIB. That is all employers' money. That's why we prefaced our remarks by saying it doesn't really impinge on this committee, the WCB, because it's a separate entity. But as to other forms of insurance, David's the expert on that.

Mr Frame: We took a look at that general proposition when the royal commission was beginning to start off, and that was part of their terms of reference, I believe. I guess our major problem with that was that we knew how difficult it was for the then board to administer the act as it was without greatly expanding that reference. We had problems projecting how the board could fairly pay for a much broader system when it already was having significant problems — you know about the unfunded liability etc — paying for the system that was there. It's our opinion that the financial problems of the WCB had to be cleaned up before any consideration could be made to expanding it.

The Chair: Thank you very much, gentlemen, for your time and your submission.

ONTARIO FARM WOMEN'S NETWORK

The Chair: Our next presenter will be the Ontario Farm Women's Network, Ineke Booy. Thank you very much for your attendance.

Ms Ineke Booy: Thank you for inviting the Ontario Farm Women's Network to make a presentation to this pre-budget consultation hearing. The Ontario Farm Women's Network is a provincial network of farm women who act together to identify and address issues that are important to farm women, farm families and the family farm. The issues that the Ontario Farm Women's Network feels should be addressed in the upcoming 1998 provincial budget are as follows: green programs and initiatives, health care, education, rural youth job strategy, the community reinvestment fund, volunteers, and rural and farm child care.

Green programs and initiatives: As the government direction is to increase trade and exports, it must recognize and maintain green programs that will ensure our industries are competitive with our trading partners, who are utilizing their green programs to the fullest extent. They are not only maintaining their existing programs but are actively developing new ones.

From the base period of 1986-87, used in the GATT agreement, until 1995-96, the US government has increased funding of green programs from $26 billion to $46 billion, almost doubling the expenditure. Examples of US green programs include the food stamp program and school milk and meal programs.

There are school programs in place in Ontario; for example, Breakfast for Learning. However, they are privately funded. If such programs were to be funded by the Ontario government, they would then qualify as green programs under the World Trade Organization and GATT. This would be a direct investment in our future through our children.

High levels of these support programs in the United States and the European Community make it extremely difficult for Ontario to be competitive. This must change. Agriculture is one of the largest economic sectors in Canada, contributing much to the gross domestic product. If we are to be competitive in the global marketplace, we need to have the same tools, support programs and opportunities as our competitors.

Health care: Health care is of vital importance to the residents of Ontario. Hospital closures and cutbacks in services have proceeded at an alarming pace. Are they all in the best interests of the population, or is cost cutting the bottom line, regardless of the impact on basic health care for the population? Short-term care and home care are becoming a necessity since hospitals are releasing patients very early. We do have a moral responsibility to society.

Have there been any long-term projections done for the health care system? If not, please consider taking a good look at where we will be in five years and 10 years.

Education: The educational process in Ontario appears to be seriously flawed. Students are entering post-secondary institutions with insufficient grammar and language skills. Professors are spending valuable class time, paid for by the students, teaching basic grammar skills. It is unfortunate that this situation has been allowed to develop. The current curriculum must be reviewed, revised and possibly harmonized not only across Ontario, but across Canada. The fundamental skills of reading, writing and math must once again become the basis of our educational programs. To ensure a well-rounded education, music, art, science and Canadian history should be included in compulsory classes.

Children and young adults with learning challenges are not being integrated into regular classrooms as much as they should be. A major stumbling block is the lack of teacher assistance and the tools and equipment which would allow these students to function to the best of their abilities. If our teachers are to continue to challenge these special students to excel and build on their skills and strengths, there must be workable solutions in place where required. Funding should be available to ensure these special children can develop as fully as possible. Every child has the right to an education according to their abilities.

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Rural youth job strategy: The rural youth job strategy, which is in the planning stages, could become an excellent program. Its aim of providing services and creating an environment to make rural life attractive and viable for young persons and young families is laudable.

Community reinvestment fund: Is the community reinvestment fund to be permanent? If it will be gradually

diminishing and finally disappearing, as many grants have done, some municipalities, particularly the rural ones, will be facing large future expenditures with little or no urban or industrial tax base to help pay the costs. Is there any allowance in the budget to assist these municipalities in the future?

Volunteers: Volunteers are becoming a vanishing species. Organizations such as the Ontario Farm Women's Network, which rely on volunteers to carry on the business of the group, are experiencing rapid burnout of their executive and members. Too few people are trying to fill too many vacancies left by the withdrawal of provincial funding. Junior Farmers and 4-H teach our farm and rural youth the ethics and pride of working in the agriculture sector. These organizations, among others, should be supported by provincial dollars.

This is becoming a serious situation. What will the future fate of these groups be? Can our society reach its full potential, or will we be slowly but surely regressing to Third World country status? Volunteers give freely of their time and energy. However, the costs of operating an office are often beyond the scope of their finances. Is there any consideration being given in the budget to basic funding for such organizations and groups?

Rural and farm child care: Rural and farm child care is a necessity for the safety of the children on operating farms. Current day care programs are not feasible in many situations, as the operating hours of the centres do not have the flexibility required during peak cropping and harvest seasons. Leaving children with neighbours is usually not an option, as they are likely involved in the same work.

There have been several child care pilot projects during the past few years, which indicated that there is definite need for this type of service in rural areas. We feel the government should seriously consider funding rural child care centres, especially during peak seasons of the year.

These are the issues that the Ontario Farm Women's Network feels should be addressed in the 1998 Ontario budget. Thank you for providing us with this opportunity to express our concerns to you.

The Chair: Thank you very much, Ms Booy. We have approximately seven minutes per caucus, starting with the Liberal caucus.

Mr Kwinter: Ms Booy, I'm not quite clear when you talk about green products or green programs. I know in my mind what green programs are, but when I read your brief, you talk about things like food stamps, school milk and meal programs as being green programs. My interpretation of a green program — and that's why I'd like you to explain it to me — is one that is ecologically and environmentally friendly. I'm just trying to make the connection between food stamps, milk, breakfasts, meals in schools and how that relates to making us competitive with green products or green programs. Could you explain that to me?

Ms Booy: I can explain it from my personal standpoint. I am an errand boy — girl, actually — here. I'm not on the board. I have not been involved in the development of this brief; I've been asked at the last moment to present it. I myself was surprised as well. Green programs, to me, are the environmental farm plans etc. I would really support those, but I assumed when I read this that there was something I did not know and that these were considered green, that these breakfast programs would be considered green and acceptable under the WTO and the GATT. I have the same concern, actually. I'm sorry I can't answer that. I'll take it back and we'll —

Mr Kwinter: I'd like to know what it is.

Ms Booy: Definitely, if I could add that here, I have recently been in Europe again, and the support that farmers get in general for grain programs is tremendous. It is active support from the side of the government to look at alternatives to our current farming practices that give trouble in the environmental field.

Mr Kwinter: I would assume that when we talk about these green programs as related to farming, we're talking about herbicides, insecticides, things of that kind, all the things that —

Ms Booy: Yes, and alternative practices of farming. That's an area I personally would support very highly, because I know it is very difficult for farmers to look at other options, because there is no support of all, not from the side of the scientists in the universities, especially as this whole industry is very much directed by corporations.

Mr Kwinter: Also, there is a reference to the rural youth job strategy. Can you tell me how that relates to farming communities and what benefits that could provide?

Ms Booy: The relationship there is that it relates very much to quality of life in the countryside. If there are no jobs for even our farm youth — they cannot all take over the farm or work on the farm — then it strengthens the community if we can keep our children and keep people in the rural community. It's not only that there have to be jobs in the first place but also that they will be hired and that rural communities and rural businesses are being strengthened to expand.

Mr Kwinter: Can you also tell me about the situation about farm child care? Again, my perception is that if there is one place where you would have an adequate place to look after your children it's on a farm. As I say, that's just my perception.

Ms Booy: If you are in the lucky situation that you have grandparents in the area or aunts or uncles, they can take care of the children, but just as in the urban situation, that's often not the case. People live all over the country.

The problem on the farm is that you cannot do two things. Often the farm environment is a very technical, very industrial environment where there are many dangers, not only from the animals but also from all the running machinery, belts and everything else, so it is not a place for children to be. We have had high child mortality on farms, and it's very difficult to work and to take care of children at the same time. It would be the same as if you had your children here running around. You cannot focus on what you are doing while you have to watch your children, especially not in dangerous situations.

The problem on the farm is that regular day care centres are open from 8 to 5. Sometimes when it's haying

time, the hay is dry at 1 o'clock and you have to go till 9 o'clock at night, so there have to be flexible hours, flexible schedules.

Mr Pouliot: Madame, thank you for your presentation. I read your mandate, and I'm quoting: "The Ontario Farm Women's Network is a provincial network of farm women who act together to identify and address issues that are important to farm women, farm families and the family farm."

True to your presentation, you present us with a potpourri, an ensemble of what is right but also what needs to be improved or fixed. You talked about the green programs initiative and then health care. Then you go on to the very real subject matter, education, community reinvestment fund. Then you touch on a group which is disillusioned and tired by way of abuse, those volunteers who we all agree, and we wonder, if they can round out the month, if they can go another mile.

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But if I were to take other presentations with somewhat of the same mandate and I was to say it's society in general, it is not farm, it is not rural, it is not urban, how do you associate — because I was listening intently when you were presenting. I turned over to the expenditure estimates and I think I made a mistake. I need your help. I looked to agriculture and I was unable to find any money allocated for health, any expenditure allocated for education, etc.

I wonder when you say you represent the Ontario Farm Women's Network. Aside from the rural youth temporary summer jobs, or whatever, placement program, you come to this committee with a presentation which is for all Ontarians, but your reason for being, with respect, what I respect, is that you represent the Ontario Farm Women's Network. When I say I need your help I need to be educated. I don't know the difference between — when it comes to health, I'm not that sensitive, by way of ignorance — your organization, its specific and special needs, and that of society as a whole.

Ms Booy: I would like to comment on that. We as farmers are such a small percentage of rural communities that it's impossible to only look at pure farm issues, because we look at the quality of life in our communities. By the way, we also presented the rural child care program, which is very specific, which you didn't mention.

Mr Pouliot: To me, Madame, everyone has an accent and I find yours absolutely, well, interesting and intriguing. Do you know about farms in Europe, for instance, elsewhere? How would you compare their sensitivity and the incentives associated with farming with what you find now in Ontario? You would be able to draw a comparison.

Ms Booy: The country I'm more familiar with is the Netherlands and, since it's a very small country, the distinction between rural and urban is hardly there; it's all very close together. But what I noticed, especially the last time I was in Europe, is the support and the development on the real green programs and initiatives. They have very forward-looking people in the agriculture department, developing programs and having money and people available to educate people on what's happening to the environment and how we can change that.

The Chair: Thank you very much. Mr Arnott is first, I believe.

Mr Arnott: Thank you very much for your presentation. I thought it was excellent. I must tell you that the issues you've raised in your presentation are very consistent with what I hear from farm families in Wellington county. I don't think that would surprise you very much. You have contributed probably literally thousands of hours as a volunteer, haven't you, in community service and farm organizations over the years?

Ms Booy: Probably, yes.

Mr Arnott: I think your contribution has been very significant and I want to compliment you on that.

You mentioned the declining base of volunteers that we have. We still have outstanding volunteers; we just have fewer of them I think. I noticed that even at a 4-H centre I was at in Wellington county about a month or so ago, the numbers of 4-H leaders who are coming forward are just not what they should be. How do we encourage greater numbers of people to volunteer to serve on agricultural-related committees and other organizations that do good work in our communities? What would you suggest we do?

Ms Booy: It depends so very much on the organization. One of the things I have missed over the last years is, for example, 10 years ago we could involve the staff at the agriculture office to type something for us, to photocopy something for us, to serve a supporting role that was very helpful, partly with regard to time but also partly with regard to contact. They knew what we were doing and we knew what they were doing and there was more of an exchange there.

Now it has become so barebones that we have — we still get to use the meeting room there but that's really it. There's no support from the local agricultural offices, and I really miss that. I think that would be a great help. It makes a lot of difference if you have to type it all out yourself, if you have to do it all yourself than if you have some support there in matters of time.

Mr Arnott: I think your two comments on rural health care and rural child care are very compelling and the committee needs to follow up on those with the Minister of Finance. You probably are aware that the Ministry of Health has a rural health care framework upon which to apply to any hospital restructuring that takes place, and that's something we're working through. But the child care point I think is particularly compelling.

Nothing breaks my heart more than reading about a child who has died in an accident, especially a farm accident, because those could have been easily prevented. Yet, as you say, there are times of the year when conventional day care just isn't sufficient to meet the needs of farm families. I would agree with you that there's work for the government to do in that respect. There have been pilot projects for rural child care that I'm sure you have

been aware of. What conclusions would you draw from the pilot projects that have taken place in what needs to be done?

Ms Booy: The pilot project that I'm aware of has been very successful. I also know that there were other possibilities tried out, and that is to have students come to the house and have a network that you could phone up somebody, or students could come from the bus to the farm and babysit the children, which would also be a very flexible way of doing things. Sometimes these things are done on an individual basis, but if such a program is supported, it brings it to people's attention as well.

Because many people have also grown up on a farm they think, "Oh well, I can take care of my child here." But often we have the same way, as some farmers are not very careful with letting others ride on tractors or whatever. We have to make people aware of that. It may not have happened to them yet but it could happen to them tomorrow, so these things would be very helpful.

Mr Wettlaufer: Ms Booy, thank you for being here today. You raised a couple of questions which I would like to address. In the health care area you ask if cost cutting is the bottom line and say that hospital closures and cutbacks in services have proceeded at an alarming pace. Then you go on further to say, "Have there been any long-term projections done for the health care system?"

For 15 years we've had a crisis in health care in this province. It is just coming to the fore now, however. These things do not happen overnight. They come as a result of years of negligence and lack of planning and that is what has happened now. Our government is being blamed for cutbacks when in fact we're spending more on health care now than has ever been spent by any government in Ontario.

The health care system is changing because the demographics are changing in Ontario. We have an aging population. The majority of the population will be over age 50 within another five years. We're going to have more and more seniors who are not going to have anywhere to go. Palliative care and long-term care are going to be the needs of the future within a decade. We are going to need more and more of this care in 15 and 20 years and it must be planned for now. But again, as I said before, that won't happen overnight either. We have to make the plans for it now. We have to make the changes necessary now.

Where we see that there are going to be fewer hospitals needed, we won't have the hospitals. We will have palliative care and long-term care and home care. That is being planned for in the Ministry of Health right now. There are changes taking place. People feel very uncomfortable with it. I feel very uncomfortable with change. It's human nature. But the changes are necessary or we're going to have a health care system whose costs will burgeon right out of control within only a few years.

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The education system: I agree with you that every child has a right to an education according to his or her ability. That is so important. But do you know that the rural boards of education are the ones that have suffered for years and years? We have high-tax areas like Toronto whose industries do business elsewhere in the province but pay no taxes anywhere else in the province. They pay taxes here in Toronto.

Mr Pouliot: Mr Chairman, this is provocative indeed.

Mr Wettlaufer: No, hang on.

The Chair: I'm sure he's getting to a question.

Mr Wettlaufer: We're talking about this large property tax base which is here in Toronto and it is not in the rural areas, whose cost to educate a student is anywhere from $4,000 or $5,000 a year to $5,500 a year or, in the northern areas, $3,600 or $3,800 a year. In the rural areas the students do not have the resources, they do not have the textbooks, they do not have the computers they do here in Toronto. These are things that need to be planned for and that is what our government is trying to do.

The Chair: Thank you very much, Ms Booy, for attending and for your presentation. We appreciate it.

Mr Phillips: On a point of information, Mr Chair: When is Hansard available? Can we get Instant Hansard for these proceedings?

The Chair: I think within 24 hours but it has to be requested.

Mr Phillips: Can I have a copy of Instant Hansard for Friday and today, please? Thank you.

The Chair: Anyone else? Thank you.

ONTARIO ASSOCIATION OF CHILDREN'S AID SOCIETIES

The Chair: We're a little ahead of time here, but the next presenter is the Ontario Association of Children's Aid Societies, Ms McConville and Ms Cresswell. Thank you very much for attending.

Ms Mary McConville: Thank you, Mr Chairman, for the opportunity to speak with you today. I'm Mary McConville and I'm the director of the Association of Children's Aid Societies. Diane Cresswell is not going to be speaking today.

The Association of Children's Aid Societies has appeared before this committee on many an occasion and we've attempted to provide the government with advice about a broad range of issues that are important to children and families and in particular we've tried to provide advice about your child welfare program for the province.

Since we last appeared before this committee there have been some very important changes in child welfare. There has been intense and growing public interest in the Ministry of Community and Social Services and the children's aid societies themselves due to a series of inquests into child fatalities and also because of the release of the Ontario Child Mortality Task Force report.

In spring 1996 the association and the chief coroner's office for the province, with the support of the ministry, convened the Ontario Child Mortality Task Force to review and to analyse information about the issue of child

deaths. We tried to collect baseline and accurate data about the number of children who have died over a two-year period who were known to the children's aid society system. We examined the coordination of efforts among organizations that work with children at risk and discussed the prevention of similar deaths in the future. We examined training issues for service providers and also the child welfare sector's ability to assess the risks that children face, especially when they're in their own homes.

In September 1996 a press conference was held with the chief coroner and the association to announce the project, and also to make a couple of other specific announcements, namely, that a survey would be conducted of child welfare deaths and that there would be an expansion of the coroner's committee which reviews child deaths in the province to make it a multi-disciplinary committee. The coroner announced five inquests into the deaths of children who were known to children's aid societies in the province.

The Ontario Child Mortality Task Force released its interim report in March 1997, and a total of six inquests have been completed in the province as of February 1998.

In the spring budget the Treasurer announced the following: "The protection of children is a priority for this government. The government has supported the child mortality task force and welcomed its preliminary report to the public.

"As an initial step, the budget provides $15 million to respond to the task force and to protect vulnerable children.

"We know that more must be done. The government looks forward to the final report of the task force and the recommendations from inquests currently under way. We are prepared to take the necessary steps to ensure that children are protected."

Just for your information, ladies and gentlemen, we have included in your package all of the inquest recommendations which have come from all of the juries to date. They are in the largest package at the back. You also have a copy of the child mortality task force report, in case you didn't have a chance to read it, which contains the specific recommendations out of it.

The impact of the recommendations of the task force and the inquest juries have resulted in a more sensitive public, a public that is more aware of the issue of child deaths and children at risk. We've seen a dramatic increase in the number of referrals to children's aid societies from the professionals who work with children every day, such as physicians and public health nurses and teachers. The whole environment has had a tremendous impact on every aspect of child welfare work, especially the front-line workers who are continuing to struggle with, in many cases, unmanageable caseloads.

Despite these challenges, we are happy to say that many positive steps have been taken to date and we'd like to commend the government for this. In the summer of 1997, the minister, Janet Ecker, announced what she refers to as the child welfare reform agenda. This agenda responds in part, not entirely, to many of the recommendations of the juries who sat on these inquests and also to the child mortality task force report. We've seen the following things happen:

The minister has appointed an outside panel of experts to examine the legislation, something we feel is really critical.

The minister has made it policy that every children's aid society in the province use a standardized risk assessment methodology. People were using different tools up to that point.

We've had a commitment to design a comprehensive information system and an audit of over 3,000 protection files.

She's also announced the development of a new funding framework.

I'd like to talk about the legislation for a minute, because this is a mandatory system. It's governed by legislation and so legislation is absolutely critical in terms of how the system operates with respect to its perceived purpose and its relationship with others. The task force and the inquest juries and your children's aid societies themselves are identifying a number of deficits with the present legislation, and they include the following:

We do not have a specific definition of neglect in the legislation.

The legislation doesn't recognize a prior history of neglect or of parenting deficits as grounds for protecting a child.

We have no reference, as is the case in other jurisdictions, to a child being exposed to repeated domestic violence as grounds for being in need of protection.

We also have a piece of legislation that's completely silent on the issue of sharing of information among all the parties who need to talk to one another when a children's aid society is trying to investigate a case.

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These are but a few of the legislative amendments that we think need to be addressed. We also recognize that if the child welfare legislation is to be substantially altered, there may very well be a change with respect to the number of referrals and the expectations of the public in terms of a response.

The societies themselves some years ago recognized that child protection work was developing a growing expertise in the area of risk assessment. These are tools that have been developed by researchers that assist social workers in making their judgements about the level of risk a child is facing in any given situation. Unfortunately, there was an absence of ministry policy in this area, so what developed was essentially many professionals who were eager to use these tools using different tools. Consequently, there was no standardized approach to a very important piece of the investigative component of child protection work. This is an area that the inquests and the child mortality task force recognized as critical, so we now have a policy in place that requires standardized tools and the ministry has committed funds for training and implementation of these tools across the province.

As of October 1 we're doing blitz training of over 4,000 people from one end of the province to the other to make sure that our staff in Ontario have been trained in the use of the best tools that are available to assess risk. We would like to say, though, that the ongoing implementation and administration of these tools across the system is going to require the dedication of additional resources that we have not yet identified.

Many people have been intrigued by this issue of a comprehensive information system and it has come as a surprise to many people, I think even people in government itself, that the children's aid societies of the province can't talk to one another through technology. Each children's aid society has its own information system, but we have no capacity. We do not have a wide-area network. Consequently, children's aid societies are not able effectively to check with one another whether a case has been serviced in their area. The police, of course, can't do the same, or the coroner's office, or some of the other critical partners that we work with in managing cases.

The introduction of a comprehensive information system that is designed to support the front line and will essentially allow the system to communicate effectively and share information is vital to improving our capacity to protect children and also vital to improved systems management, from both the ministry perspective and an organizational perspective; that is, the societies themselves.

In 1997 the ministry awarded a contract for the design of this system. We're looking forward to the implementation of a fast-track approach to sharing information and a comprehensive system over the next three to four years.

The minister also announced, as part of her reform agenda, that she would conduct an outside review of the ministry's responsibility for its child welfare program, as well as conducting an audit of child protection files. It was the minister's view that both responsibilities, those of the ministry and its transfer payment agencies, needed examining and we heartily agree with that direction.

The children's aid societies are subject to an audit of cases on a routine basis every two years. Unfortunately, we don't have standards in the province that apply to neglect cases; we only have standards that apply to physical abuse cases. Consequently, the audits that have been done routinely over the last few years have essentially neglected a large portion of the child protection caseload. So the minister's efforts in conducting an audit of 3,000 cases was in part to examine how cases of child neglect are being handled, with a view to improving standards.

The child mortality task force found that in over 70% of the deaths of children that occurred in a two-year period, child neglect was one of the primary reasons for service, as opposed to child abuse. I think most people link in their heads the physical abuse of children and deaths of children, as opposed to neglect. It's clear that child maltreatment in its broadest sense is lethal and needs to be attended to from a quality of service perspective.

With regard to the funding of the societies, we've appeared before you on many an occasion over the last several years trying to contend with cuts to services and changes in service demand. In January of this year, the minister announced the allocation of a portion of the $15 million that was announced in the spring budget to the societies. This money is essentially going to replace about 181 front-line workers and about 39 supervisors, hopefully over the next two months, if we can manage to hire that many people that quickly.

The committee needs to know that the system has lost 455 permanent positions over the last three years, and from 1991 to 1994, 300 additional positions were lost. Through something called contingency funding or emergency funding, societies were able to hire contract workers for about 120 staff in 1997. That money has not in fact gone anywhere near replacing the loss of those positions in the system. I just wanted to give you a sense of the impact of the cuts on staffing since 1991, because it has only partially been addressed by the money that was put in place in last May's budget.

In addition to the impact of cuts, your child welfare program has suffered for years and years, since the early 1980s, from a completely irrational approach to funding. The service planning process was meant to be proactive; it is not. We have not had an adequate method of responding to legislated child welfare review hearings for the last several years. The ministry has been relying on this pot of money called the contingency fund, which is essentially a recycled pot of dollars, to try to keep the lid on its child welfare expenditures since 1993. Previous governments have tried to come to grips with the approach to funding of child welfare, but really haven't dealt with a major rethinking of that and have just responded in a very piecemeal fashion.

I'd like to mention foster care for a moment. You've read a good deal about that in the paper of late. In the late 1980s, our foster care system was in serious trouble. We were losing foster parents at a rapid rate. Foster care payments were extremely low. At that time the Ministry of Community and Social Services — this would be in 1989 — announced an allocation of $8 million to try to strengthen the children's aid societies' foster care system, because it really is the backbone of child welfare once a decision has to be made to take a child out of his or her home, which is a last resort, of course.

That money was used to provide staff to support foster parents, implement a province-wide training program and also modestly improve the rates they were paid on a per diem basis for the children's care. That problem of foster care resourcing was supposed to be addressed through a second phase of funding that did not occur. What occurred in the 1990s, of course, was an erosion of resources. So much of what we had gained in trying to strengthen our foster care system has been lost over the last three to five years.

Briefly, to turn to our crown wards for a moment, those children for whom the children's aid society is their long-term parent, we have money in our budgets to pay for room and board for children who are 18 and over and who are able to continue on with their post-secondary

education. The societies have no funds, though, to pay for the costs of university or college or specific training for these children, and rely on fund-raising and bursaries, and there's simply not enough money to pay for the post-secondary education for many of these youth. We're finding that many of them are having a hard time sustaining their effort in post-secondary education because of their financial struggles and also because they're carrying such a huge emotional burden based on their separation from their families, and many have a terrible history of abuse. We're very concerned about the adequacy of our support to that group of young people as well.

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We'd like to commend the government again for the allocation of $15 million in May and recognizing that this is a beginning step towards addressing these kinds of stresses on your child welfare system. The minister has announced, in addition to the $15 million, the establishment of a funding framework project. We hope this is our opportunity once and for all to put a rational approach to the funding of your child welfare program in place, and I'd like to identify what we think some of the key components of that framework should be.

We need a comprehensive information system. We need to know how the money is being spent and to be able to analyse service trends in order to support a funding framework.

We need to have workload formulae. There's no such thing. Your child welfare workers in the province can carry anything from 50 cases per worker to 20 cases per worker and everything in between. There are no recognized workload guidelines for the child welfare staff.

We also need a mechanism to respond to increased case volume. This is your children's service that can't turn away cases. If a case needs to be investigated, the society can't turn it down or turn it back, so there has to be some kind of method to respond to the reality of caseloads in the system.

We also need to have a rational approach to the funding of prevention and support programs. Regardless of the fact that many children need to come into care and some of those children need to remain permanently in care or move on to adoption, any child welfare system needs the capacity, first and foremost, to strengthen families and to provide direct services to children at risk in their own homes as a first measure before the state becomes more intrusive. We have lost a good deal of ground in terms of our service capacity to try to keep families together.

We also need to look at an equitable approach to funding the societies. On a per child capita basis, you are funding your children's aid program with a spectrum like this: We have got one society that's getting a rate of about $48 per child capita, all the way through to about $400 per child capita, and there's absolutely no rationale for that kind of discrepancy.

Last, we feel that any new funding framework has to have as part of the framework a quality assurance system that's based on standards and outcome measures. The government needs to know what it's getting for its money and whether services are effective, and the child welfare service providers need to adhere to standards that are recognized by experts in the provision of these services.

To close, and before I sit for your questions, I would like to acknowledge the societies of the province, which have worked terribly hard and under extremely difficult conditions over the past 18 months to keep children safe. We believe that a long-term investment and a commitment to strengthening your child welfare program is needed both to restore adequate service capacity and to improve the effectiveness of the system.

I hope my remarks today and the material we have provided you with in the package — and of course we have much more if you want it — will help you put this issue in some context, because you are going to have to be making some really tough decisions, as we know, about budget and priorities over the next while. Thank you.

The Chair: The questions will start with the NDP caucus. We have about three minutes per caucus.

Mr Pouliot: Thank you, Madame. You are kind and ethical and generous in your comments. On the one hand, you thank the ministry for the $15 million, and in the same breath you go on to say that 300 service providers were let go, and from 1995 an additional 455. You have used terminology vis-à-vis workloads such as "unmanageable." You can't commend the government there. The way you see the future, unless there is a change of philosophy, I don't sense much hope for an improvement, but one has to remain positive. I can readily acquiesce to style.

The current fate of Ontario children, happy that the minister appoints or provides someone — I'd like so much to believe that this is not a deliberate, systematic scheme. Logically, to me, it seems you don't cut the funding and then appoint what's wrong with the funding. You appoint something in its transition or to make it different or somewhat better and then you address your funding. But I guess it's a different style.

Now I'll get to the question. We have someone like yourself, with expertise, masters, people working their craft. Dr Paul D. Steinhauer, of considerable renown, this morning talked to us about what's ahead: 26% of our young population, the future of the province, our country, is in difficulty right now. He talked about the reversal in stats, the increase in teenage pregnancy. He talked to us about cutbacks of essential services, cutbacks at the human dimension level. And this is in a time of prosperity. Imagine when the cycle hits. He said to us, "Nothing else matters."

When I blend your presentation with his, I sense an urgency, that it's not too late, good things are being done, but we need a plan of attack, some sincerity and funding to associate the resources with the need. We have to match them. My question is simple, and as always, you shall be positive indeed. What is the morale? Do people sense that they know where they're going? Do they see themselves being better off next year in terms of their ability to cope with the system, and do they look to the future with confidence?

Ms McConville: It's a very mixed picture. I think the front-line workers especially are communicating that they are under tremendous stress and are very worried about their future and their ability to carry out their responsibilities unless their workload is reduced. At the same time, they have some hope and believe that the government is going to follow through with its commitment to properly support its child welfare program.

Mr Arnott: Thank you for your presentation. I must say that the people who work for family and children's services in Guelph and Wellington county do a magnificent job, at times under very difficult conditions, and I hope that message gets back to them and others who work for children's aid societies across the province. We do appreciate the outstanding efforts they put forward.

Earlier today we had a presentation by Dr Paul Steinhauer. I'm sure you've heard that name and are quite familiar with his work.

Ms McConville: Yes, I know him well.

Mr Arnott: He said, "It is far more effective and more efficient to prevent child abuse and neglect and their complications...than it is to have to deal with their consequences." I'm sure you would agree with that supposition.

Ms McConville: Absolutely.

Mr Arnott: What more should we be doing through our children's aid societies to prevent child abuse as opposed to having to react to it all the time?

Ms McConville: The sad thing here is that we were doing it until very recently. Child welfare in Ontario is rather unique, in Canada at least, in that it's a service that's run on a transfer payment basis by community-based agencies with community boards governing them, so we've had the benefit of tremendous community support. I haven't mentioned them here, but we not only have 5,000 foster parents supporting the system; we've got as many volunteers supporting the front-line workers as well. This kind of enriched service capacity and community involvement you don't find in systems where the government runs the service and it's a bureaucratic approach to things.

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But what has shifted in the last few years is that we've spent several years building up prevention programming that was targeted at your more at-risk population as opposed to the primary prevention programming. The children's aid system was building up a capacity to provide supports to families at an earlier stage, in partnership with their communities. These programs have been steadily eroded over the 1990s. What we're finding as a result is an increase in the number of children coming into care and more and more families disintegrating because they didn't get help soon enough.

We really need to design a community-based child welfare system that has a service capacity and that can intervene earlier, but also is fully integrated with a much broader range of support services to families including schools and our public health departments and so on. Just as we need a design on the funding issue, we also need a design on the service capacity and the integrated roles that everybody has to play to support children and families. The last thing we should be doing is narrowing the mandate of your child welfare program to that of policing agents who do nothing but investigate and offer no service. We have those kinds of programs in other jurisdictions, and they're extremely ineffective.

Mr Phillips: We too appreciate the work of the children's aid society and commend you for it. I have a couple of questions. We heard the other day about the need to establish some benchmarks, some measurements so we can have some sense of how well are we doing. I don't mean just in the area of working with children; I mean across the services that government provides.

You've used the phrase "a system in crisis" here. One of the problems is that "crisis" has been overused. I don't mean by you, but by so many people using it that sometimes, even though you say there's a crisis, we — "we" being governments — could perhaps ignore it because it's been used so often. Can you help quantify it for us and humanize it a bit so we have a sense of the magnitude of the crisis?

Ms McConville: We have a system that services close to 100,000 families a year and 163,000 children in those families. The system has to bring into its care about 20,000 children a year.

If I could put a face on who those families are, we're talking about families that present with problems of domestic violence; substance abuse, everything from crack cocaine to alcohol; usually families living in poverty and having tremendous struggles financially; families where mental illness is very often a key feature. Your typical child protection family doesn't present one of those problems but often presents all of those problems or some variables on them. These are extremely difficult families to work with. They usually have several children and move about, and they are often families, although not always, that are very resistant to the services that some of your more mainstream services in the community might provide.

It's the job of your children's aid worker to knock at the door of the family that doesn't want to see you or to sit down and talk about intimate things like domestic violence with someone who has the capacity to remove their children. That is the routine in the day of a front-line worker. There isn't a more difficult job you can do. These workers today are working with caseloads in many instances as high as 30, and in the worst-case scenarios between 40 and 50, with nothing between them and disaster striking if they're not on top of the risks those children are facing and if they're not in a position, because they lack the evidence, to remove children from a home.

Children's aid societies cannot do this job on their own. We need a system where your safety net service, the children's aid societies, are resourced properly, but also a system that reflects your recognition that families need a whole range of supports in their local neighbourhoods to adequately raise their children. There are many, many families in our communities that are just not capable of doing this job on their own and they never will be. That's a reality we have to accept as a society.

The Chair: I have to interrupt you there, Ms McConville. I thank you very much for coming and I commend you for the way you stated the case on behalf of the front-line workers. You forgot to mention, though, what percentage of those calls come between 9 and 5 and what percentage come after midnight.

Ms McConville: Actually, they come round the clock.

The Chair: I know they do. Thank you very much.

ONTARIO PARENT COUNCIL

The Chair: The next presenter is the Ontario Parent Council, Ms Laing, chair. Welcome. Please introduce your associates.

Ms Mary Margaret Laing: I certainly will, and thank you for having us. With me are Ken Slemko, the chair of the education policies committee of our council, and Martha Harron. Martha is from Toronto — Ken is from Ottawa, by the way — and is the vice-chair of our council.

Once again, thank you for your invitation for the Ontario Parent Council to come before you and present some of our concerns about funding in general.

The Ontario Parent Council is an advisory body to the Ministry of Education and Training. It works to ensure that all parents in Ontario have the opportunity to participate in a meaningful way in their children's education. The OPC advises the Minister of Education and Training on issues from a parent's perspective. Members also serve on ministry committees as volunteers and devote a considerable amount of volunteer time and effort to outreach in their communities.

The members of the OPC, who are appointed by the minister, come from all over the province and from various backgrounds. The three recognized provincial parent associations have seats on our council. I have enclosed a list of members for your perusal, but I think it's enough to note that we come from a very widespread area of the province, every corner of the province — rural, urban, French, English, Catholic and not — and a very widespread number of parents are represented on the council.

In its role of advising on key education policy issues, the OPC has made presentations to the legislative committees examining both Bill 104 and Bill 160, two key pieces of legislation affecting the future of Ontario's education system. The OPC supported what it saw as the general intent of Bill 104, to free up additional resources for the classroom through the amalgamation of school boards. It also supported key provisions of Bill 160, including legislating average class sizes and instructional time. The council viewed these as two elements essential to the quality of education in our schools and was concerned about increasing class sizes and the low amount of actual instructional time our students received compared to those in other provinces.

Many elements of education reform in Ontario are only beginning to take shape. Amalgamation of school boards is only in the early stages of implementation. Fundamental change to the funding of those new district school boards is occurring without any clear picture yet as to what impact this might have on individual boards, schools or students. New roles and responsibilities for the government, ministry, school boards, local schools and school councils are evolving. A new elementary curriculum is currently being implemented. A totally revamped secondary school program, with a new curriculum and elimination of the OAC year, is in prospect for the 1999-2000 school year.

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Many parents support these reforms. They are, however, very concerned about the speed of change that is taking place and its effects on their children. Parents need to be sure the government will provide the funding needed to ensure these reforms are properly implemented so they improve the quality of learning in our classrooms.

Like the Education Improvement Commission, the Ontario Parent Council strongly advocated that any savings resulting from Bill 160 should be reinvested to ensure education reform would be a success.

The Ontario Parent Council believes resources must be focused on the classroom, by which we mean on student learning, on improving the quality of instruction, on providing the necessary resources, such as textbooks and support material, which are needed to deliver the curriculum, and on providing a safe and healthy learning environment for our students. With this in mind, the OPC believes there are several principles which should guide the government in its decisions relating to education spending in the upcoming budget.

The government must, at a minimum, maintain spending in the classroom to ensure the new curricula for elementary and secondary schools are properly implemented and the resources needed to deliver those curricula are available. The message is clear: Now is not the time to cut education spending.

The amalgamation of school boards can free up additional dollars for spending in the classroom. The benefits, however, will not be immediately realized because of many one-time and transition costs. The government should not reduce education funding in anticipation that major savings from amalgamation will occur in the next fiscal year. To use an old saying, we ask that the government not count its chickens before the eggs are hatched. The full effects of amalgamation are certainly not out of the shell at this time. Constant attention must be paid to ensuring that district boards set specific and realistic targets for savings from amalgamation. There must be a clear system of accountability and reporting.

The government must continue to search for ways to ensure that more of the education budget is channelled to the classroom.

Teacher training is essential to ensure that all teachers have the knowledge base they need to deliver the curriculum. Training is essential to ensure that teachers have the background and skills needed to deliver a more rigorous curriculum.

It is of great concern to parents to hear that many teachers reported, as part of the recent testing by the Education Quality and Accountability Office, a level of discomfort in teaching elementary school mathematics. It is also interesting to note that it is possible to become an elementary school teacher in Ontario without ever having to take mathematics beyond grade 10.

We need to set high standards for the skills our teachers bring to the classroom and provide the resources needed so existing teachers can upgrade their skills, where necessary, to meet those standards. Attention must be focused on what training most effectively prepares teachers to meet those demands. A culture of continuous learning within the teaching profession is essential to high performance in the classroom.

The government must also provide the money so that junior kindergarten classes can be offered throughout the province in the most effective and cost-efficient manner. The OPC and many parents support the findings of the royal commission on the future of education that early childhood education is essential to ensure our children will be ready to meet the demands of a rigorous elementary education. For this reason, the budget must provide the funding and the government confirm its commitment to provide early childhood education.

The government has recognized that many of its reforms in areas such as municipal affairs and health services will involve significant restructuring costs and has wisely been provisioning for these costs. The government must now, as a priority, allocate a sizeable share of those funds, both in the current and upcoming fiscal years, to meet the significant restructuring costs arising from its reform of the education system, including remedial instruction for those students who need it to meet the expectations of the new curriculum.

In judging the impact of education reform, most parents will focus on how those changes are affecting the quality of learning that takes place in their children's classrooms. While many support the reforms, the jury is still out on whether the reforms will deliver the improvement in quality that all parents wish to see in our schools. Adequate funding is a key element in ensuring that the reforms are successful and that program and learning quality are maintained during the transition.

We would like to leave you, therefore, with two final thoughts when considering the impact of the budget on our classrooms. First, the government must provide a level of funding that will ensure our classrooms have the resources and trained teachers needed so our children can meet the higher standards that will be demanded by the new curricula. Second, the funding must provide a period of stability in which to implement the necessary reforms.

Again, I thank you for providing us with the opportunity to make our views known to you.

The Vice-Chair (Mr Wayne Wettlaufer): Thank you very much. We have about seven minutes per caucus for questions, and we'll begin this round with the government caucus.

Mr Arnott: I thought your presentation was very interesting. Thank you very much for the time you have put into it and for coming before us today.

I wanted to focus on the points you made on teacher training. I agree wholeheartedly that we need to support our teachers, to encourage them to always do better tomorrow than they did today and have a very positive approach to continuous improvement in their teaching techniques and their professional abilities. That's not to be critical of them, because I think we have outstanding teachers, but it's an attitude and a culture; as you call it, a culture of continuous learning. I think that's an excellent way of expressing it.

I find it interesting when you say you can be a teacher in Ontario with having nothing more than a grade 10 math credit. Do you have any idea how many teachers we have in Ontario today who perhaps don't have a higher standard of math in their own educational background than grade 10?

Ms Laing: I wouldn't have those numbers available at our disposal, certainly. The information we have, and this is from talking mostly with the Ontario college, is that a fairly high number, a substantial percentage, more than 50%, of teachers have a very generalized background coming into elementary school. I think it would be fairly safe to say that the information we've given you on mathematics could safely be said for science as well, for many.

Mr Arnott: I agree we should try to encourage a higher standard. I doubt very much that there are that many, but those who do fall into that category should be given the opportunity to upgrade their skills, certainly.

You mentioned junior kindergarten as an issue that you felt very strongly about. It has been the position of the government that that program should be optional so that local school boards, if they wish, can offer it. You're suggesting it should be province-wide.

Ms Laing: That's correct. It has always been the parent council's position on junior kindergarten that it should be a mandated program. That speaks to the notion that it does prepare children for the elementary curriculum, but also to some of the cost savings that can be incurred further down the line on programs for kids to stay in school or return to school. I think the data are quite clear on that.

Mr Baird: Thank you very much for your presentation. There's one thing I'd like to put on the record, because I heard quite a bit during the public policy discussions related to Bill 160 that the Ontario Parent Council is somehow a political wing of the government. Shari Ritter, who's from my constituency, who I recommended, was a concerned parent, no affiliation whatsoever to the party or to the government in any past election campaign. She's just a concerned parent who had been very active not just in our school, but in our community in various labour disputes and how it affected students. So I just wanted to put that on the record, Mr Chair.

I did want to discuss one issue and I wanted to get the Ontario Parent Council's view on this issue. In the establishment of an equitable funding model, one of the issues

which has arisen is the amount of money necessary for administration, for those spending as a school board. Just prior to your presentation, we heard from the Ontario Association of Children's Aid Societies, and they had mentioned that an extra $15-million grant given by the government had allowed them to rehire some of the staff who had been downsized under the previous NDP government and under the present government. They used a ratio of 181 case workers together with 39 supervisors. That's about a four and a half to one ratio of supervisor to front-line worker, and that caused some concern upon reflection.

Would you have a problem if in the funding model there was a cap on administration spending, under which there would not be the ability of a board to say, "Listen, our circumstances are very different in X region of the province; we need more supervisors, more administration, a bigger board office, more spending there," that that flexibility would be taken away? If there was a cap on administrative spending, would that be something the Ontario Parent Council would be inclined to support?

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Ms Laing: The council has not discussed that specifically. What we have discussed is making certain there is an established and very transparent mechanism to make certain that the largest percentage of education funding is spent in the classroom. That mechanism does not currently exist. Our feeling is that if we can be certain as taxpayers and parents that money is being spent in the classroom, that by itself will help to ensure that most of the money is spent there and a smaller amount is spent on administration. It's not to say that we don't think administrative spending is an issue. Informally, we've discussed that quite a lot. But for us, the important issue is that most funding goes to the classroom and that we are able to see that most funding goes to the classroom.

Mr Baird: The reason I raise the issue is that you walk into the school board office in my community, the former Carleton Roman Catholic Separate School Board, and you can see just by walking in that they clearly don't waste a lot of money outside of the classroom. It's clearly evident. I just say that because there has been a terrific amount of public discussion which has centred around the fact that they should have the local authority, that if they feel in some area there's a particular reason why they need a big administration, need 50% or 60% more superintendents than in another area, they should have that local flexibility. I think that causes us all a terrific amount of concern, because like you, we want to see the money getting into the classroom where the teachers are, where the children are learning and where the curriculum is in place.

Mr Ken Slemko: One of the things we put in our report here was a real sense that what we need to be looking for in these new boards are targets. Basically, we understood these amalgamations, as we said in our brief, were to free up additional money to go into the classroom. As you're saying, what needs to be done is that there need to be some spending targets for boards that are realistic and that are probably aimed at bringing down the cost of administration in all the boards, and then of course more money will flow, and that there be very clear accountability. That's a bit of the problem, that we sometimes see that reporting and accountability simply aren't there in certain boards to provide parents, yourselves and the public with a good sense of where the money is being spent.

Mr Kwinter: I want to follow up on your recommendation that the budget must provide funding for junior kindergarten. This morning it was quoted extensively, and today Dr Paul Steinhauer, a professor of psychiatry at the University of Toronto, made a presentation to us. One of his recommendations stated, "Readiness to learn in kindergarten is the strongest single determinant of academic success, and one way to increase the school readiness of children at high risk for school failure is through high-quality early child care and education." He then went on to say, "Poor child care, especially when superimposed upon poor parenting, escalates the rate of school failure, behaviour problems and subsequent delinquency."

In your recommendation, you talk about junior kindergarten, but you don't tie it in the way he does to child care. He made the point that when a child is born and for the first couple of years, they hard-wire some of their abilities. Do you have a position on that, or are you just talking about junior kindergarten?

Ms Laing: I did try to allude to that a little bit earlier in my answers to previous questions in saying that the data on this are very clear when it comes to problems later on in a child's educational career. The evidence for early childhood education is quite clear. You're very correct in saying that we have not included it in our brief. I would have to say that if we had had the time and the wherewithal, we certainly would have included it. It's something that we have discussed a lot and that we think is very important to the junior kindergarten discussion.

Mr Phillips: I appreciate the work of the parent council. What would maybe be helpful for us is how you provide advice to the minister and what the minister's response has been to your advice.

I think you have several quite exceptional recommendations in here. Junior kindergarten is one of them. The funding model, which we all expect in the next few weeks, is another one. I think your restructuring fund suggestion is a creative one, because you're right: The government has focused on health restructuring funds, municipal restructuring funds, but it has been strangely silent on education restructuring funds. I particularly like, by the way, your recommendation on human restructuring funds rather than just the normal bricks and mortar sort of thing.

What has been the response of the minister? I know you're there to give advice directly to the minister. Has the minister indicated support for your recommendations?

Ms Laing: Perhaps this is as good a time as any to share with you that our invitation to appear before you came very late in the day on Friday and we have been hard-pressed to get our thoughts before you today. I can

say with some certainty that we have not advised the minister specifically on some of the items that we have outlined to you today. He will receive a copy of this brief concurrent with you folks.

I should say too that this is generally how we provide advice to the minister. It's usually in written form. He does attend our meetings from time to time and we're very vocal about putting forward positions such as these with him. I can tell you also that the minister doesn't necessarily — and I've had experience with several ministers now — come back and say, "We're for sure going to follow that recommendation." I can tell you, on the other hand, that some of the recommendations we made with regard to Bill 160 specifically, with regard to class size being included in the statute rather than the recommendations, was the way the bill finally ended up. We have had several opportunities like that where we have provided advice and have seen that advice taken, and we're very pleased by that.

Mr Phillips: To paraphrase you, I gather you've sent these recommendations and in your regular meeting with the minister you will review them.

Ms Laing: Absolutely.

Mr Phillips: I have the Minister of Education's financing numbers here.

Ms Laing: Hmm.

Mr Phillips: No, it's a public document. It's nothing secret. They show here that since 1993, enrolment has gone up by about 64,000 students and funding has gone down by about $85 million, spending on elementary and secondary. Pension spending has gone up, but that's mainly as a result of paying off an old unfunded liability from the 1970s that had never been paid off.

How is that being handled in terms of the parent council experience? With a growth in enrolment, a decrease of maybe $80 million over a five-year period and inflation, has there been any impact on the classroom with those numbers, or has there been no impact?

Ms Laing: I think most of what we see out there is anecdotal rather than actually being measured. Part of the recommendations you see from us today with regard to making certain that education funding is flowing to the classroom are a result of what we hear from parents in saying that they're fearful. If money has not actually been taken out of their classroom, they are at least somewhat fearful that in the coming years, weeks, months, when we're trying to introduce new curricula and need new resource materials, it won't be there. That kind of input from parents out there is a direct reason why we've put that kind of recommendation forward. We think that's the most significant consideration when you're talking about where money needs to go.

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Mr Pouliot: Mesdames, gentlemen, thank you very much. I find your presentation, under the circumstances, most refreshing, and I commend you for being of a very positive inclination and nature. I have some difficulties with the language, so I will need your help and attention, please.

Creating a crisis, the need to create a crisis, teachers being overpaid and underworked, now unqualified — although those people, like us, are not the victims but the beneficiaries of that system. They will say they've done well in spite of the teachers. I think we've done well with the teachers, 126,000 of the most educated group in our province, in the collective hitting the bricks, unprecedented. It's unprecedented that they would have the support of the general populace, because they believe in the classroom, in the foot soldier preparing Ontario for its future. Yet you persevere in face of the many amendments, because those bills were drafted in haste, and when you draft in haste, you make mistakes: the omnibus bill, the veil of secrecy, the funding formula, the anxiety that leads to fear, where rumours take on extraordinary proportions.

My question is as follows: Do you find it passing strange that so far into the fiscal year, in the context of so many changes, we still don't have the funding formula to make the system go and to reconcile and apply all the changes? If I were to ask you — and you're front row centre, the three of you, representing many others — where you will be in April in terms of principals and vice-principals, this year, in two months, where you will be in terms of assessment and reassessment that zooms when it hits the municipal tapes and where you will be next September in terms of providing that essential service to our children, would you be able to answer some of those questions at this time, in mid-February? If not, does that cause some anxiety to you, that the government is perhaps going too fast, that by this time you should have the funding formula in your hand?

Ms Laing: You've asked quite a number of questions there. I think we have tried to communicate in our brief to you today that parents are very concerned with the speed of change, very concerned not just with what's going to happen next month with principals and vice-principals but with what's happening with their children in the classroom today, tomorrow, next week. We have made similar presentations about principals and vice-principals and how we think that should go. That is what we can do as a council and as parents, speak to how we think it should go.

We have tried and have worked very hard at following the process of the funding formula and communicating what parents need to the ministry folks who are looking after that. What parents need right now is some reassurance that things are going forward and that we know where we're going to be, as you say, in April, May, June. So, yes, there is some anxiety out there that the funding formula is not yet here, but we continue to be hopeful that it will be here very soon and, more important for us, that it be right, if you will, and that it provide the best classroom education possible for our students. That's the most significant feature for us.

Mr Pouliot: May I have one supplementary? I appreciate it, Chair. Again, this taxpayer, like others, hears rumours that there might be a deal, that the fix is in, if you wish, that a deal is imminent that would allow the superannuation fund — I believe there's in excess of $50

billion in it, and when you project, it would have the ability to pick up any liability; in other words, the fund is in the black. That would give the opportunity to school boards, technically the employer, to go from a factor 90, the function of age plus years of service, and reduce it to 86 or 85, giving the ability — this is the fly in the ointment. I'm not imputing motive; I know they have ulterior motives. I know those people. They could hire younger and cheaper —

The Vice-Chair: Mr Pouliot.

Mr Pouliot: Do you feel comfortable with that philosophy?

The Vice-Chair: I believe that really is unparliamentary.

Mr Pouliot: You're only the Chair. You're not supposed to be biased.

The Vice-Chair: I believe that's unparliamentary.

Mr Pouliot: What is unparliamentary?

The Vice-Chair: Questioning the motives of the other members.

Mr Pouliot: Oh well, I will withdraw that if their sensibilities are offended.

But back to the question, with respect, do you feel this would provide an element where more money would be available, since the new teacher would be younger, with less seniority on the grid and therefore cheaper, and it would give the people whose morale has been under a state of siege the opportunity to go and latch on to factor 86 or factor 90? Do you see that as a possibility? Would you welcome that? Because the money is not going to come from any place else.

Mr Slemko: As a parent, it doesn't matter to me whether it's an old teacher or a young teacher; it's the quality of the teacher and the knowledge they have. In our brief we've tried to emphasize that what we really think is important is that any teacher who is teaching has the qualifications to do it and is able to do it. Since we're here to suggest what should be done in this budget, we want to set that as a priority.

Mr Pouliot: So you support qualified teachers. Thank you very much.

The Vice-Chair: I'm sorry, I'm going to have to cut you off at this time. The time has elapsed. Thank you very much for coming today. Thank you for your presentation.

BRAMPTON BOARD OF TRADE

The Vice-Chair: The next presentation is from the Brampton Board of Trade. Good afternoon. You can begin any time.

Ms Maria Britto: I understand you have copies of the submission we have, so I'll just be reading it through and then you can have any questions afterwards.

Good afternoon, ladies and gentlemen. My name is Maria Britto, and I am the president of the Brampton Board of Trade. With me this afternoon is Stuart Johnston, our policy analyst. Unfortunately, the other two members had business commitments they couldn't get out of and at the last minute had to call it off, so we'll do it on our own.

I would like to thank the standing committee on finance and economic affairs for this opportunity to provide to you at first hand our comments and input regarding the upcoming provincial budget.

As background, the Brampton Board of Trade is an organization representing more than 900 corporate members in and around Brampton, which employ a total of more than 60,000 people in the city and across Peel region. We certainly welcome the opportunity to express the economic views of our membership, particularly at this junction in time when both the province of Ontario and the nation as a whole can see the light at the end of the deficit tunnel.

It is important to pause at this time and take stock of the situation to ensure that we continue down the path of financial responsibility. What that means to the members of the Brampton Board of Trade is for governments at all levels to continue with the discipline of holding the line on new spending, balancing the budgets with a firm commitment to reducing the debt and continuing to foster job creation and economic growth by creating a positive business environment through such means as tax reductions and other incentives.

On these points, the Brampton Board of Trade highly commends Premier Mike Harris and his provincial government for staying firm on these most important commitments. Mr Harris has repeatedly demonstrated his government's goals of strengthening Ontario's economy, streamlining government, fostering a positive business climate and reducing red tape. These and other initiatives go a long way to reaffirming Ontario's reputation and very real role of being the foundation of Canada's economy. It is because Ontario has this enormous responsibility that it is vital for the government not to stray from its fundamental vision of strong fiscal management.

The government must stay the course on its fight against the deficit and its commitment to reduce the debt, but it must do more than look after its own house. As Canada's economic patriarch, Mr Harris and his government must redouble efforts to counsel Ottawa to adopt a similar policy with the federal budget. Now is not the time to consider new ways of spending money we don't really have yet. Once the debts of the province and the country are wrestled down to more internationally accepted levels, then, and only then, can we ease the strict nature of our fiscal management policies.

That is not to say that all policies must be geared towards deficit and debt reduction. A prudent path to take is to throw into this mix creative incentives for businesses to grow and add new jobs. This would generate more revenues for provincial coffers and strengthen the economy as a whole. Also, we encourage the government to put some money away for the next inevitable downturn of the economy. Doing so will soften the blow of any future downturn. This philosophy can be told to you by an entry-level economist, but it is important to sometimes reiterate the obvious to reaffirm one's goals.

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The government must also continue in its efforts of job creation and small business assistance through such

venues as the small business enterprise centres, of which we are a partner in Brampton. Small business, as we all know, is one of the pillars of the economy. Certainly the vast majority of our membership belongs to this category, and the dozens of new members who are joining each month most definitely follow this trend. Small businesses, by their very definition, do not always have the capital or the luxury of time to solidify their places in the economy. They sometimes need encouragement, and the Brampton Board of Trade is most pleased that this provincial government recognizes and acts on that fact.

But more can and needs to be done. With this in mind, we encourage the provincial government to again address the issue of the federal small business corporate tax deduction. Since 1981, the corporate rate threshold has been set at $200,000. We urge the Ontario government to actively lobby Ottawa to increase this threshold to $400,000. Raising the bar is a tangible way of recognizing the very real and substantial contributions that small businesses give to our economy.

We also encourage the Ontario government to consider a provincial sales tax credit on capital items purchased by new small businesses. Giving new small businesses a break on the provincial sales tax when they purchase their first computer, machinery, supplies or whatever the case may be will go a long way to help those new businesses succeed. A sales tax exemption will do a number of things. It will make it easier for new businesses to purchase their important capital tools. It will also allow the businesses to purchase more of these tools, which will lead to increased demand and therefore production of these same goods. Of course, the provincial government would set a limit on what the sales tax credit will be. Nevertheless, any break in this area would go a long way to help new small businesses to hit the ground running and succeed.

Also, should the provincial government agree with this wisdom, we would respectfully request it lobby Ottawa to provide the same sales tax credit on the GST.

We at the Brampton Board of Trade commend the provincial government for its youth training and apprenticeship efforts to date, but strongly urge it to strengthen and augment these programs. Tax break incentives for businesses hiring permanent full-time employees and more financial assistance for training young people must be included in this and future budgets. As well, the Ontario government must strengthen and continue with its research and development incentive programs. R&D is a vital component of increasing the strength of Ontario's businesses on the global market and must not be forgotten or watered down. I'm sure three of our members — Nortel, Spar Aerospace and Chrysler Canada, not to mention the literally hundreds of others in Brampton and beyond that rely on this research — would deliver volumes of data supporting the importance of R&D and its direct link to the local and global success that it provides.

Another program that must not be forgotten is the Canada-Ontario infrastructure program. This program, which partners the three levels of government and the private sector, boasts a number of successes throughout Ontario, and certainly Brampton has benefited from it as well. Spending money on strategic investments in this manner is a wise use of public-private funds and creates jobs — real jobs. We urge the provincial government not to dilute this program.

The provincial government must be congratulated on its efforts to update municipal and education development charges. While the Brampton Board of Trade still considers all development charges regressive taxes that do nothing to encourage new development, we at least must acknowledge the government's efforts in reducing some of the burden in this area.

However, the Brampton Board of Trade is most disappointed that only the industrial sector is privy to an exemption of development charges when applied to the expansion of existing buildings. The Brampton Board of Trade would prefer that a commercial designation be included in this exemption and that the exemption apply to the entire expansion and not just to the expansion of up to 50% of the original gross floor area. Physical expansions of businesses are a sign of growth and economic health, so why should they be penalized through development charges? The goal of the provincial government and any level of government is to foster a healthy business climate, not to erect significant economic hurdles such as development charges.

The Brampton Board of Trade therefore strongly recommends that a sunset clause be adopted for all development charges. Failing that, we recommend that development charges be completely dropped for all expansions and that a commercial designation be included with the current industrial designation.

Speaking of expansions, and to add a strictly local flavour to this presentation, the Brampton Board of Trade respectfully recommends that the provincial government complete the northern portion of Highway 410 so that it links with Highway 10. This is an important transportation link for our businesses and its employees, as I'm sure the Minister of Transportation and Brampton South MPP, Tony Clement, can attest. Completion of this artery is a much-anticipated project that the provincial government must fully commit to as soon as possible.

Further on the topic of transportation issues, the Brampton Board of Trade officially supports the domestic auto companies' efforts to prevent the federal government from reducing or eliminating the most-favoured-nation tariff on non-auto-pact companies. Eliminating the tariff on imported vehicles would have a significant negative impact on Ontario's and indeed Canada's economy and would both directly and indirectly negatively impact our provincial budgets for years to come.

Eliminating the tariff would most likely result in a flood of imports from offshore vehicle manufacturers and a significant reduction in the production of Canadian- and Ontario-made vehicles and parts. Considering that one in seven jobs in this country is directly or indirectly related to the auto industry and that Chrysler, Ford and GM have invested more than $19 billion over the last 10 years,

compared to a $3-billion investment from Honda, Toyota and Hyundai, the tariff is a vital and much-needed component of federal policy.

The Brampton Board of Trade certainly supports fairness and operating on a level playing field and would have no problem eliminating such tariffs if there were reciprocal agreements with overseas countries. However, these countries want to eliminate tariffs for their vehicles imported into Canada yet are unwilling to lift their tariffs on auto-pact-manufactured vehicles exported to their countries. Should the tariff be eliminated, our auto industry would be delivered a serious blow, one which we would be hard-pressed to recover from, if ever.

While this matter does not directly affect your budget preparations for this year, one must consider the long-term implications of all policies from all levels of government. Most, if not all, policies have either a direct or indirect budgetary impact. Eliminating the tariff would in all likelihood send Ontario's economy into a tailspin, and that, ladies and gentlemen, must be prevented from happening at all costs.

Therefore, the Brampton Board of Trade urges the Minister of Transportation and the provincial government in the strongest possible terms to firmly lobby Ottawa not to eliminate or reduce the most-favoured-nation tariff on offshore-produced vehicles.

To bring our presentation back full circle and to matters directly related to Ontario's mandate, the efforts to streamline the provincial government and make it more efficient and more accountable must continue. The Brampton Board of Trade recently had the pleasure and honour to host a presentation by Mr Frank Sheehan, chair of the Red Tape Commission, and his associate and our Brampton North representative, Joe Spina. Both gentlemen outlined the government's impressive and, I must admit, daunting task of consolidating, updating, eliminating and augmenting current policies and legislation, with the goal of making things easier, cheaper and more user-friendly. This initiative must be highly commended and the Brampton Board of Trade fully supports all efforts in this regard. Making it easier and hopefully less expensive to conduct business in Ontario is a goal that we all support, and eliminating red tape and its inherent barriers is a great step in the right direction.

But more needs to be done. You're certainly heading in the right direction but you haven't quite reached your destination, and along the way one must keep in mind the importance of retaining the sense of community in municipalities throughout Ontario. What I mean by that is allowing municipalities to retain that vitally important sense of self through well-established principles of taxation with representation, local autonomy over local matters and having a unique local identity.

With the government's exchange of services relating to education and social services, commonly referred to as pooling everywhere outside of Queen's Park, real communities such as Brampton are being inadvertently drawn into the megacity of Toronto. The borders which distinguish communities from one another are slowly being erased, and we see that as a danger to the autonomy of communities. Yes, the borders separating Toronto and the GTA municipalities from one another are largely just lines on a map, economically speaking, but pooling property taxes from across this larger region amounts to a taxation policy without direct representation — no say for pay, in other words.

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The Brampton Board of Trade, with the public support of the Mississauga Board of Trade and recently the Ontario Chamber of Commerce, believes the funding required for social services, for one, should be derived from the income tax base, not property taxes. Taxation of properties must be left to the local politicians for local matters. The province should not be meddling with property taxes. It has embarked on a slippery slope that, like the temporary measure to pay for our military involvement in 1914 — income taxes — it will never get out of.

We applaud the finance minister's decision to freeze the business tax rate for education at current levels, but again the method and manner of financing Ontario's education system is certainly left wanting. We hear the concerns of our fellow businesses in Toronto about how their business taxes are too high in relation to the rest of the province, but asking the surrounding municipalities to pay for Toronto's problems is not the answer. If the costs and service levels in the city were on a par with Peel, Durham or Halton regions, then certainly sharing the burden would make more sense. Toronto is widely recognized as the flower of the province, but to let it grow and have nourishment, you don't water the flower, you water the roots, and we in the GTA are the roots. With that reasoning, we urge the provincial government to stick to the finance minister's decision to freeze business tax rates at current levels.

However, the Brampton Board of Trade urges the government to place a sunset clause on pooling business property taxes for education purposes. Pooling for, say, three years would allow the government and various private sector partners to develop a more fundamentally fair system for all involved, both for Toronto's businesses and those outside the city. A uniform rate, for instance, is fair, but only under the strictest of conditions. The Brampton Board of Trade and its fellow boards and chambers across the GTA have all expressed a desire to work with the government to develop such a system. We urge the provincial government to bring the parties together to work on this issue as soon as possible.

In closing, we must part with a message to the government to pause and reflect as each step is taken. Slow down. Allow Ontario's businesses to absorb the many new, albeit welcome, changes brought about by the government. The effects of the aforementioned pooling of social services, combined with such measures as the business education tax rates, the new property assessment and the removal of the business occupancy tax have wreaked havoc on corporate and municipal budgeting. The government must allow the business community to catch

up and absorb these and any future changes before any new fiscal policies are implemented.

As well, the provincial government may want to do a little homework in regard to educating the public on these and other initiatives. Misinformation, putting a vague spin on each subject and only halfheartedly explaining the potential benefits of any new policy will do serious harm to the credibility of the government and will only undermine any good that these changes are attempting to bring about.

I thank you very much for allowing us to present our views.

The Chair: Thank you, Ms Britto. Before moving to questions, I'd like to welcome the member for Brampton South, Tony Clement, the Minister of Transportation. Tony, it's unfortunate you couldn't be here at 1:30 when the Ontario Road Builders' Association was present. You would have enjoyed that as much as Ms Britto's presentation. Welcome, sir.

We'll move to questions. We have approximately 15 minutes, five minutes per caucus. We'll start with the Liberal caucus.

Mr Phillips: Thank you for a very thoughtful brief. It reflects a lot of work and some good policy people on your board who take an interest in this. There are so many areas I'd like to get into, but let's just deal with property tax for a moment. I'm getting an awful lot of calls these days from businesses in my area on the business occupancy tax going —

Ms Britto: Are you in the 416 or 905 area?

Mr Phillips: It impacts everywhere, but I've moved from Scarborough to Toronto.

Mr Kwinter: Without moving.

Mr Phillips: Without moving, yes. It still seems as long a drive as it used to be. I thought that with moving to Toronto I could get down here faster, but it's still the same traffic jam.

These are small businesses that are getting bills from their landlords now that the business occupancy tax is off. They were paying perhaps 30%. They now have to pay substantially more taxes because the business occupancy tax has been added back on to the realty taxes. While banks are getting a big break, because they're dropping their taxes substantially, for small businesses in my area they seem to be going up dramatically. Is the board facing any of those things in Brampton? Are you getting any feedback? I think you mention business occupancy tax in your brief. Have you any recommendations on how we should be trying to deal with it?

Mr Stuart Johnston: From the Brampton perspective, that's one of the questions our membership is trying to deal with right now. The city of Brampton certainly has not issued any tax bills yet. We don't know what the rates are going to be overall. There's vague fear that the small businesses' classification will make their tax rates go up, but we don't have anything definitive on that subject yet. As a board, we are looking at it, but we don't have any policies on that yet because everything is such a question mark. That's one of the reasons Maria was suggesting that everyone slow down right now so we can absorb these impacts and find out how our taxes are going to be affected.

Mr Phillips: That train has left the station. That one is gone.

Mr Johnston: We understand that, but we still don't know how it's going to be impacting on the local level.

Mr Phillips: This is the committee that has dealt with the bill. We're told that municipalities are going to put it on the realty tax. We had a brief the other day from an expert witness who said the banks will see about a 17% decrease in their property tax and small businesses will see about a 10% increase in property tax when you average the business occupancy tax. Banks were paying 75% and small business was paying 30%; it's going to average to around 44% or 45%.

The next question I'd like to get your advice on is your recommendation on not putting social services on property tax — social housing and social assistance. Premier Harris appointed a group called the Who Does What committee. That's the jargon we use around here. David Crombie headed up the Who Does What and Premier Harris appointed about 14 people to look at what things should be put on property tax, what things should be handled by the province. They unanimously and strongly said, "Don't put social housing and social assistance on property tax." In fact, the language they used was, "We strongly are opposed to this and we unanimously recommend you not do it."

But the government went ahead and did it anyway, and now we're faced with property taxes handling these sensitive services. We all know that particularly in an economic downturn — and there will be one; I hope it's 10 years from now, but there will be one — we've loaded the property tax somewhat. Have you any advice for us on how we might work our way out of this problem? You have a fairly strong recommendation here, actually in bold type, that it should be derived from the income tax base, not property taxes. Has the Brampton board looked at how we might work our way out of this problem?

Mr Johnston: One thing we did was take this concern to the Ontario Chamber of Commerce, and last month they agreed on two of our three points, the strongest of those points being that it should be on the income tax base, as we suggested here. The Ontario Chamber of Commerce has now struck a subcommittee to review exactly what you are asking us now. We've more or less, as an association, passed the ball to our parent association at the Ontario Chamber of Commerce. They are dealing with it.

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Mr Pouliot: Monsieur, Madame, welcome. I too would like to acknowledge the presence, from his busy schedule, of the Minister of Transportation and his good friend and colleague as well.

You've made mention of the Minister of Transportation, hoping he would grant you the pleasure of an audience. He's done that. You've also made mention by name of two other main persons, if you wish, in your brief. You're certainly consistent with their philosophy and for

that I wish to commend you. Not only are you a good conjurer, but you listen quite well.

I'm not from 905 nor from 416, but I'm aware of their quarrel. I live in 807, which is the most remote, special part of the province. Although we are in times of prosperity, the mining sector and the forestry sector — we are very much resource-based up north, more so than any other part of the province; it's our reason for being — are not having a good year. I don't play those things, but people who play the commodities, the mercantile markets, the futures market — is that the way you say it, Wayne?

Mr Wettlaufer: Why are you asking me? You're the expert.

Mr Pouliot: They will attest that things are not going too well and they too wish to have a break in taxes.

What I'm getting at is as follows: You encourage and commend the government on heading towards a balanced budget, and that's most honourable and worthy of you. We might be the last province, likely, in the Dominion to do so, but it is still in the right direction. Then you go a step further and you tip your hand. You say, "While you're at it, why don't you go to the real problem, that of the debt, for it is sapping our capacity." Before they arrive at that, you say to the government: "I too pay too much tax, yet in order to keep progressive and to encourage, I want to be able to trade; I represent the board of trade. I don't want tariffs eliminated, but I commend you on reducing red tape." Small picture, big picture — consistency. "I want the 410." Hence the presence of the Minister of Transportation. "I want him to make it happen but I don't want to increase taxes. I don't want the foreign companies to come calling, because Toyota" — I hope they're not listening to this; Honda, where are you? They're only a certain percentage. You know that the auto pact has served very well here. I would not begin to open that can of worms.

I really appreciate your presentation; it has depth, good insight. If you get 20% of what you propose, will you be happy? You're certainly not going to be able to reconcile in short order — unless the government people are miracle workers — all of what you've asked. I want to wish you well.

Incidentally, lobbying the federal government on some subjects is to keep lobbying, because the budget is on the 24th. This government is told that the document — in fact, I have a copy — of the federal budget is already printed.

I want to wish you well. I cannot agree philosophically with some of your presentation, but I'm so often wrong. It doesn't mean I'm right.

The Chair: Thank you, Mr Pouliot. I apologize, Ms Britto. I know you'd want to answer all the questions Mr Pouliot put forward, but you don't have time. We'll move now to the government party.

Mr Baird: Thank you very much for your presentation. I appreciate the time you took to come down. I too want to talk about the business tax rate for education, as you mentioned in your brief. I guess the government had a number of options, and others would have fewer options. One is to maintain tax levels the way they are now, which would involve a 0% tax increase everywhere. The other would be to raise taxes for everyone else to equalize it and to raise taxes for people throughout the province to make up the difference. It would mean a significant tax cut for businesses in Toronto and increases for folks like you in Brampton, folks like my constituents in Nepean. One of those options is a tax cut. We know some have said — they're on record — that they don't believe in cutting taxes until the budget is balanced, so that wouldn't be an option. That leaves as the most conceivable option to simply raise tax and equalize it around the province. Can you tell me what effect that type of major property tax increase would have on businesses and industries in Brampton?

Ms Britto: As far as the businesses are concerned, ultimately they're not going to take that hit all the time. It's going to be passed down. They're going to have to pass it down to the property tax because they're not going to be hit all the time. We'll never be able to function. I would estimate an increase anywhere from 35% to about 55%, and in some of the smaller municipalities they're probably looking at a 100% increase. In some instances, it could bankrupt municipalities. It's just not feasible.

Mr Baird: So it wouldn't be an option for businesses in Brampton.

Ms Britto: No, not at this point.

Mr Baird: The other thing I wanted to ask you was with respect to the small business corporate income tax deduction, raising it from $200,000 to $400,000. You mentioned that as part of your presentation. How positive an effect do you think that would have, if it were included? I, unlike my colleague from Lac-Nipigon, don't have a copy of the federal budget yet, so I'm not as aware of it as he is. What type of positive effect would that have for small businesses in Brampton? As you know, the government has put a lot of priority on small business, because they're the job creators in the province.

Mr Johnston: Certainly the majority of our membership is small business. Those that aren't quite technically small business are on that threshold, in that grey area. We believe that if we raised the threshold and allowed them to be classified as small business, they would be able to receive some of the benefits and some of the programs geared towards small businesses that they wouldn't otherwise have, for instance, tax credits for financing and that sort of thing. It's more from a philosophical perspective that we're coming from.

Ms Britto: Some 85% of our new members to the board are small businesses right now. That's why the enterprise centre that we've set up is crucial for them. Our opening is on the 23rd, and we invite you to come out.

Mr Baird: The member for Brampton South was in Nepean the other day extolling the virtues of Brampton.

Ms Britto: They are certainly very supportive, and we thank them for that.

We're off and running. We're seeing almost 40 people a day. That encompasses Caledon and Orangeville as well. That is the biggest concern, the startup costs and issues like that.

Mr Baird: Is the business climate in Brampton, the job creation climate, significantly better than it was three years ago? Do you think the policies of the provincial government have had a positive effect on your business climate, on job creation?

Ms Britto: We have a gentleman who works in the city of Brampton, past president of the board, who was instrumental in workfare. We placed a fair number of jobs. The number of businesses into the city has increased, as well as the employment rate, obviously. Last year was probably the best year we had in a decade. We certainly took great pride in that.

Mr Johnston: Our membership is increasing by leaps and bounds now. Three years ago we were at an all-time low, and now we're getting to an all-time high.

Ms Britto: We're averaging 30 to 40 new members a month.

The Chair: I thank you for your presentation, Ms Britto and Mr Johnston. Our time has expired.

TORONTO REAL ESTATE BOARD

The Chair: The next presenter is the Toronto Real Estate Board, Mr Palander, president-elect. Welcome. Thank you very much for attending.

Mr Bill Palander: Mr Chairman and members of the committee, my name is Bill Palander. I'm president-elect of the Toronto Real Estate Board, as well as chairperson of the government relations committee of the Toronto Real Estate Board. With me today are Jane Doyle, both a York and Toronto Real Estate Board member, as well as a member who sits on our government relations committee; Fareed Khan, the board's policy advisor for government and legislative affairs; and Von Palmer, the board's policy analyst in the same area.

I'd like to thank the committee for allowing us the opportunity to appear before you today to express the Toronto Real Estate Board's views as you conduct your pre-budget consultations. Since our time is limited, my remarks will be brief and will address the government's fiscal position, recent provincial policies that impact on property taxes and the land transfer tax rebate program.

I'd like to start by saying that the Toronto Real Estate Board supports the government's goal of deficit reduction. Continued deficit spending and the rising provincial debt are a burden on the economy and remain threats to the economic future of Ontario.

We recognize that the deficit peaked in 1992-93 and that the budget is projected to be balanced by the year 2000-01. We encourage the government to at the very minimum stay on course with this timetable.

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While deficit reduction is important, the provincial government should make all efforts to minimize the impact on municipal budgets. The effect of reduced provincial transfer payments is an increased reliance on municipal property taxes and/or user fees as an alternate source of revenue to fund local programs. This would be contrary to what the government promised in its Common Sense Revolution document.

This brings me to the government's recent announcement that commercial and industrial education property taxes will be frozen. While this is encouraging, we are concerned about the government's rejection of numerous calls by various groups, including the Toronto Real Estate Board, to implement a uniform province-wide industrial and commercial education property tax rate.

TREB was one of the groups that called on and applauded the government for removing education costs from residential property taxes. This was a good move. The next step should have been to address industrial and commercial taxes. The failure to do so will saddle Toronto's businesses with property taxes that would be almost $400 million higher than they would have been with a level playing field, leaving Toronto business property taxes North America's highest. Other provinces which have provincially controlled education taxes all levy such taxes at uniform provincial rates. Even with a uniform rate, Toronto businesses would still be paying 30% of the provincial total despite having only 20% of the provincial employment base and population.

The Toronto Real Estate Board is now urging the province to reconsider a uniform provincial or GTA-wide rate for industrial and commercial education property taxes, since all Ontario businesses, regardless of location, benefit from a well-educated society and should pay equal rates of education across the province.

Uniform rates would also eliminate artificial tax incentives which are currently distorting the operation of the market in influencing business location decisions. Furthermore, a province-wide uniform rate would reduce large business property tax differentials which have contributed to stagnant business assessment growth in Toronto and rapid growth elsewhere outside the city.

While we supported the removal of education costs from the property tax base, we did not expect the province to download responsibility for social costs such as public housing and welfare on to municipalities, especially given that the exercise is not revenue-neutral, as the Premier had promised.

These are income redistribution programs which have historically been the responsibility of the provincial government. Downloading such programs is expected to force municipalities to raise property taxes to finance social costs. Given this choice, the status quo would have been preferable, as costs were more predictable.

The gravity of the impact of some of these changes on municipal budgets is demonstrated by a recent warning from the Dominion Bond Rating Service, which has announced it is placing the domestic currency debt rating of the new city of Toronto "under review with negative implications."

DBRS expressed specific concern regarding property tax reform and the increased volatility in spending because of the provincial downloading of services such as social housing and welfare, all at a time when the new city is faced with substantial costs related to amalgamation.

These concerns have to be taken seriously, since a downgrade would scare investors, raise the cost of borrowing for the city and would drive up local taxes.

On the issue of the Ontario economy, we know that it was strong in 1997. GDP growth was 4.4% and economists are optimistic that the Ontario economy will remain strong in 1998. We are counting on the provincial government to continue to cultivate conditions that will maintain business and consumer confidence in the year ahead.

While the Conference Board of Canada has reported that consumer confidence has climbed steadily higher since the end of 1995, it has also recently confirmed that the Asian crisis and the recent rise in short-term interest rates has caused confidence to slip.

One of the most visible ways consumer confidence is measured is the pace of residential real estate activity. The 1996 Ontario budget announced a special one-year provision to the land transfer tax, which was extended an additional year through to 1998. This has been a boost for first-time home buyers and the economic spinoffs to the province have been significant. First-time home buyers have until March 31, 1998, to purchase a newly constructed home to qualify for the land transfer tax rebate. The maximum rebate is $1,725, which is equivalent to the land transfer tax on a $200,000 home.

TREB is calling on the Ontario government to not only extend this highly successful program but to extend the land transfer tax rebate to include resale homes. We fully support MPP Dan Newman in his efforts to convince the government to continue the rebate program and extend it to include resale homes. As you are probably aware, MPP Dan Newman was successful in securing passage of a resolution by the Ontario Legislature calling on the government to include this initiative as part of the 1998-99 budget.

At the same time, I must note that TREB opposes land transfer taxes in principle since they are a cost barrier to home ownership, do not relate to any services provided by the government with respect to real property and are simply a tax to generate revenue. The following should be considered:

The land transfer tax constitutes a significant portion of the closing costs for all first-time buyers. The current rebate program discriminates against first-time buyers of resale homes.

Since the purchase of resale homes also generates significant employment and economic activity, resale homes should also qualify for the land transfer tax rebate under the current provincial program.

According to a study commissioned by the Canadian Real Estate Association and the Ontario Real Estate Association, when individuals purchase homes, they typically purchase new appliances, furnishings and other durable goods, as well as undertake renovations that tailor the home to meet specific personal requirements. Fees are also generated for various professionals, as well as taxes to all levels of government.

The CREA-OREA study estimated that $17,145 is generated by the average housing transaction in Canada. In Ontario, with 142,000 resales during 1997, that would amount to $2.4 billion in economic spinoffs. The total expenditure of $17,145 relates only to the costs of moving from one home to another and does not include any construction expenditures by the sellers of homes in order to prepare their properties for sale, or, in the case of new housing, the construction expenditures involved. According to our study, the 139,000 resales in Ontario in 1996 would have generated almost 27,000 direct and indirect jobs.

Having said this, I think the importance of continuing the land transfer tax rebate program is obvious. Programs such as this and the federal government's programs are all crucial in enabling that potential first-time home buyer to make the move to home ownership.

Let's take a closer look at trends in the greater Toronto housing industry: 1997 was the best year for new home sales this decade, with 27,000 sales, a 31% increase from 1996; 1997 was also the best year for resales this decade, with 58,000 sales, but a more modest 4% increase from 1996. Province-wide the increase was 1.9% for 1997 over 1996.

However, 1998 trends are off to a slow start. Resales for the month of January 1998 were down 26% when compared to January 1997. This is consistent with the numbers from December 1997, when resales were down 27% compared to December 1996.

This is clearly not the time to ease off on incentive programs for first-time home buyers, especially those that cost the government little or no money. First-time buyers remain a crucial part of the housing market. The average price of a home in Toronto is $206,209, with a median price of $182,000, still a significant sum of money.

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To summarize, the Toronto Real Estate Board is urging the Ontario government to:

(1) Continue with its deficit reduction efforts in a responsible way that does not result in additional tax burdens being imposed at the local level through user fees and increased property taxes.

(2) Reconsider a uniform provincial or GTA-wide rate for industrial and commercial education property taxes.

(3) Continue the land transfer tax rebate program for first-time home buyers, set to expire March 31, 1998, and extend it to include resale homes.

Thank you.

The Chair: We have approximately five minutes per caucus for questions, and we'll start with the New Democratic Party.

Mr Pouliot: Thank you and welcome back. In the parlance of El Niño, the eye of the storm is about to descend on Toronto.

What a difference a presentation makes. Your predecessors were involved in sort of a game of table tennis, like ping-pong, but they're from the 905 — not that they got any pleasure from the misery of others. One has to be kind and generous, but they saw some justification.

Well, 1997 is likely to have been a better year than this year. You have mentioned in your presentation the Asian

crisis. Not too many pundits — I don't recall reading last year at this time that there was going to be an Asian crisis. It hit us. You've experienced — please correct me — in the last several months, but a relatively short term, 175 basis points. Our Canadian dollar, although not under a state of siege, is difficult to support; in fact, some people have mentioned that there is some market consideration that it will go up. It's already in the market, if you wish. The bank rates don't reflect that, but certainly the bond market does to a larger extent, because it's its job to speculate. That's why they open the markets.

If you look at the existing interesting rates, although relatively low, they have gone up. We don't know the anxiety over the Asian market. If you throw in the uncertainty and what you anticipate in terms of taxes, because you have heard the Minister of Finance speak — you know there is a reassessment as never before, that 3.8 million units across the province are being assessed and reassessed. You know the history of Toronto vis-à-vis its relationship with the assessment. Taking those three factors, could you give me an approximate percentage of your business, the people you represent, being impacted? Could it go down in a worst-case scenario by 5% over last year, by 10%? If all hell breaks loose, could it be 12%? How many jobs would it mean and how many millions or billions would it mean to the province?

Mr Palander: I'll let Mr Khan answer in a moment, but personally, as a realtor, I can tell you that certainly the threat of increased taxes for commercial-industrial properties in the new city of Toronto is definitely driving people out of the city. My clients are not looking in the city any more; they're looking outside. As to percentages, maybe Mr Khan has his crystal ball with him. We'll let him answer that.

Mr Fareed Khan: In terms of percentages, as you noted in the presentation, both in December and in January the market was down about 26% from the same time the previous year. Obviously, there are a number of factors involved. Some of it involves the uncertainty about where interest rates are going. We've seen increases in interest rates, and that's going to have an impact on both the commercial and residential markets. Definitely, the changes to the tax structure are going to have an impact.

We've got a number of things happening at the same time, so it's very difficult to isolate which change is impacting the market. We've got the assessment reform happening, we've got the city of Toronto amalgamation and the costs that are going to be involved with that and whatever tax implications that might have. As well, we have the downloading exercise, which is pretty much having an impact province-wide in terms of municipalities being loaded with more costs than they were giving up in terms of the exchange between the province and the municipalities.

We feel that if the trends continue, if interest rates continue to rise, if the Bank of Canada continues to boost rates in order to support the dollar, that definitely will have an impact on the market and we'll continue to see further declines on the residential side, because consumers are very sensitive to interest rates, and also on the commercial side, given all the other changes that are happening as well, because the commercial market also watches where rates are going. If they have to go out and borrow money, they're going to think twice before going and investing money when rates are going up in addition to having to take into account all the other financial changes in terms of taxes and so forth.

Mr Baird: Thank you very much for your presentation. I appreciate the time you took to put it together. I'm not from Toronto; I'm from Ottawa-Carleton in eastern Ontario, so I may not be as well apprised of these issues as my two colleagues in the opposition parties.

I was talking with a group of business people from Toronto the other day and they were explaining their concern about the fact that taxes, while frozen, at least would stop going up — they've gone up by some 80% over the last 10 or 12 years, and this at least would freeze them. They were appreciative of that but concerned that they would be higher in Toronto than they were in other areas.

One of them said that this is the first time ever Toronto has been forced to pay higher taxes than anywhere else in Ontario, and one of the other fellows interrupted and said: "No, it's not the first time. There was the commercial concentration tax brought in by the Peterson government." I'm not fully aware of why that was brought in. Mr Phillips would know more about that than I. I knew it was taken, but even the NDP wanted to cut that tax. While they were raising all the other taxes, they cut that tax. That's the only other previous experience we've had where taxes disproportionately affected one area, obviously 100% in that case.

What type of effect did the commercial concentration tax have on business, particularly in the commercial area, from your experience in the late 1980s?

Mr Palander: To answer that question quite simply, the commercial concentration tax probably began the ball rolling in terms of decimating Toronto. At that point in time I certainly noticed a clientele that began looking outside of the city, and that move has gone on ever since.

Mr Khan: It wasn't just outside the city, in that case it was outside the greater Toronto area, because that tax applied across the GTA. I can't recall the square footage and someone can correct me if I'm wrong, but if a commercial property or a business property had more than, I believe, 200,000 square feet in space, starting at that point there was a tax that was levied. It was a discriminatory tax and we lobbied against it and a subsequent government did repeal that tax.

Having had that experience happen, however, we realized, and I hope that governments realized, that discriminating against the economic heartland of the province not only did not do this region any good, but also had repercussions throughout the rest of the province. What we're saying when we look at the commercial-industrial-education tax is that some people say, "Toronto has all this business assessment and this is where the growth and

economic activity is, so in this instance it's justifiable that they should be taxed higher."

The reality is that if you tinker to that effect on the down side with the Toronto economy, it's going to have an effect up in Timmins and it's going to have an effect in southwestern Ontario, because this is the concentration of the economic activity of the province. We've got almost 50% of the economic output of the province happening in this area, so it's not just something that affects us; ultimately it's going to affect the rest of the province.

1650

Mr Baird: I wanted to ask you a question on another issue relating to residential sales. I was reading the Nesbitt Burns provincial handbook, which tracks various outputs in the economy, and it talked about consumer spending and household incomes being boosted by approximately $2 billion, and this will underpin the bullish outlook for consumer spending. One of the big reasons for the personal income tax deduction was that it made home ownership that much closer for people by making it more accessible. Can you tell me what impact the increase in consumer confidence, assisted by the tax cut, has had on residential sales for your members?

Mr Khan: Actually, the main boost in consumer confidence had more to do with the decline in interest rates, because the reality is if you looked at the tax cut in terms of an absolute dollar term on a per paycheque basis, unless you get into the higher income levels it's only a few dollars per paycheque. The reality is that a few dollars every two weeks is not really going to make that much of a difference in terms of if you're looking to buy a house. However, the fact that interest rates decline by a number of percentage points over the last few years, plus you had this pent-up demand that was left over from the recession in the early 1990s, has had more of an impact as well as the decline in house prices.

Mr Phillips: I know the answer before I ask the question, but I want to pursue one of the real estate board's major thrusts. Just to say I represent a Toronto riding as well and it's very difficult to get sympathy from around the province for Toronto issues. It's a reality. I think this is really advice and then a question.

When people in Ontario realize that the province now has 100% responsibility for setting the property taxes on businesses, on about 60% of business property taxes, all the education portion on business is now set by the province, 100% responsibility, and then when they begin to look, here's what the numbers will show: A building worth $500,000 in Brockville will pay roughly $15,000 of property tax and an identical building assessed at exactly the same value in Parry Sound will pay $5,000. When the Brockville business person begins to raise questions with his local MPP of, "Why is it, when this was supposed to be fair across the province, I am paying $15,000 and I know a business identically valued in Parry Sound is paying $5,000?" — a business in Orillia will pay almost $15,000 and the identical business in Huntsville, just up the road, will pay $5,000; an identical business in Hamilton will pay $18,000 and one in Burlington I think $11,000.

The reason I raise this is it will only be, in my opinion, when MPPs are forced to justify why the province sets the tax rate on businesses — the province has set up an assessment system that says no matter where your business is you will be assessed fairly, the province now says, "We have 100% control of education so we'll set the school budgets so that no matter," as Mr Wettlaufer says, "where you are you're going to get fair treatment from the province" — it will be that forcing the MPPs to justify why they've set substantially higher property taxes on one than the other.

I'm very concerned about Toronto business. I think it will be completely transparent now; you know, a business will pay dramatically higher taxes in Toronto. I use the example of a business in Richmond Hill and a business in Toronto identically valued, and I think the business in Richmond Hill will pay half the taxes.

My question is this: Has the Toronto Real Estate Board tried to enlist at least the awareness of other real estate boards across the province that this is not just a Toronto problem but is going to be a problem of inequities right across the province? Have you any discussion with your counterparts in other jurisdictions?

Mr Khan: Actually, I was just meeting this morning with my counterpart at the Hamilton Real Estate Board and they're facing the same situation where you've got properties of similar value located within the core of Hamilton and then those located outside of Hamilton in the larger region of Wentworth. You've got similar properties, and they're paying large differences in property taxes.

Just a note: When this whole exercise started on the property tax reform we were very supportive because we felt that whatever system is used, the same rules should apply. That way you have "transparency," which is a term you used. However, we've been very disappointed with the result that has come out, because what you've got is a system where supposedly the rules are going to be the same, but they're going to be applied inequitably depending on where you are in the province.

We realize it's not just a Toronto problem; there are other urban municipalities in Ontario that face the same problems that Toronto is facing. But in terms of the overall impact, obviously Toronto is going to face the largest impact in dollar terms. Also, given that this is the economic heartland, anything that happens here is going to have an impact economically across the rest of the province.

Mr Phillips: The province, back in December, blew this, in my opinion; completely blew it. They did all the calculations on residential property taxes and said, "We're going to have a uniform mill rate right across the province." It had the same kind of impact as if you had a uniform mill rate on commercial-industrial. Some communities benefited, some were penalized. It had a terrific impact of shifting around. But the province had $600 million worth of funds to fix the problem, so they gave

some communities quite a lot of community reinvestment funds because they knew that having a uniform mill rate was going to hurt their taxpayers. They had a chance then to use the limited financial resources of the province to look at the same thing for commercial-industrial, but they didn't. They didn't get around to dealing with this until less than two weeks ago.

Have you had any conversations with the government on why, back in December when they were dealing with the residential tax rate and moving to the uniform rate, they didn't at the same time do the same calculation on commercial-industrial? Because believe me, nobody wants taxes to go up in their community, and that's why they had the community reinvestment funds to cushion that blow.

The Chair: Have you had any discussion, sir? We're out of time.

Mr Von Palmer: What you say makes a lot of sense. Along with a whole bunch of business groups, we're under the impression that when the province addressed residential property tax they were off to a good start. That was a great start. In all the discussions, if you go back, a lot of commissions and task forces out there all recommended a uniform tax rate across the province for industrial-commercial businesses. We thought that residential was a good start, and the next step was to address the industrial-commercial property taxes. So we were surprised, along with other groups, the board of trade as well, when Ernie Eves announced that he would freeze the property tax rates, which was a great move, but that we will not get a uniform tax rate.

I think it's unrealistic to expect that you can simply have a uniform tax rate across the province and have the 905 and other jurisdictions take a tax hit. We're not saying that, but a move in the right direction would certainly be welcome. You can phase in whatever adjustments have to take place. I mean, Toronto always expects to support the province, and I think that's clear and that will never change. We're not saying move overnight, in two days, but it was a step in the right direction. But the announcement that we heard was that the best we can hope for is we'll balance the budget in 2000-01, and then we can address that problem. Clearly the province recognizes there is a problem, an imbalance, so now is the time to move and take a step in the right direction.

The Chair: I apologize, sir, but I have to interrupt you there. Our time is up. We thank you for your presentation and thank you for your time.

1700

WINE COUNCIL OF ONTARIO

The Chair: The next presentation is from the Wine Council of Ontario, Ms Franklin. Good afternoon. Welcome.

Ms Linda Franklin: I realize I'm the last presenter at the end of a long day and you've all heard a lot of submissions, so I'll try to be brief and to the point. I apologize to some of you folks who have heard some of our issues not that long ago as we dealt with the assessment question. At any rate, we appreciate this opportunity to come and talk to you folks about issues that are relevant to the 1998 provincial budget development process.

As was mentioned, I'm Linda Franklin. I represent the Wine Council of Ontario, which is the trade association for wineries in the province, with 32 members.

This past year, unlike some sectors, I guess, has been a really good year for our industry. Sales of domestic wines are up 8%, and for the first time since the mid-1980s, sales of domestic wines have surpassed sales of the French, which were always our benchmark, both in terms of volume and dollars, which is a rare feat when you consider that some French wines retail for over $100 and we're lucky to get $20 a bottle at our high end. It has been a good year that way. In Niagara and in southwestern Ontario, those of you who have been to visit the wineries will know that tourism is up, and developments at wineries to support that have vastly increased over the last few years. That in turn is building job creation, so we're now employing hundreds of people more than we were just two or three years ago in the tourism and customer service part of our business in Niagara and southwestern Ontario.

Several new wineries opened their doors in the past year and there will be shovels to be in the ground, we expect, for two new major winery developments in the coming year: a new winery for Andrés Peller Estates in Niagara-on-the-Lake and a winery and culinary institute in Vineland. Today as well, three wineries in Ontario are publicly traded companies, and that's up from one just over a year ago.

Growth in the wine industry is also fuelling new economic activity in agriculture, particularly in Niagara, which has been a particularly hard-hit area of the province in agricultural terms over the past few years. Today, wine grape growers are planting an average of 1,000 acres of grapes a year; that's a cost of about $14,000 for every acre planted, so there's a lot of financial investment going into the peninsula that there wasn't a few years ago. To help finance this, wineries are signing long-term contracts with growers for the first time in many years, so there's some long-term security for wine growers in the province. Banks and the Niagara Credit Union are starting to develop special loan processes that defer payments on loans taken out to plant vineyards until the vineyard comes into production.

Planting activity in the peninsula is expected to grow for several years because the growth in consumer demand for our wines, again for the first time in many years, is outstripping supply significantly. We anticipate that we are several thousand acres short, even at the rate of 1,000 new acres a year, of the wine grapes we need, so it's also good news for nurseries who supply us with the vines that we plant in the ground. Economic growth in Niagara is really being fuelled in many ways by growth in the wine industry.

As well, we take some credit for academic growth in the peninsula, because the growth in our industry over the past couple of years has made it possible for Brock University to open the first dedicated viticulture and

oenology institute in the country, something they tried to do twice before and simply couldn't get a critical mass to do. Well, the industry is big enough that they can now. That means that if you want to be a winemaker in Ontario, you won't have to go to Australia or California or Chile or Europe to learn your craft. Over the next few years, you can do it here in Canada, and that hasn't been the case up until now.

Without question, we take credit for a lot of the growth and development in our industry. There's been a lot of hard work over a lot of years, and a lot of changes, as most of you know, in the quality and the way wine is made. We also have benefited from partnerships with a series of governments, Liberal, NDP and Tory, that have recognized that there is some value to investment in our industry, and I think we have rewarded that investment and that faith on the part of government by turning the industry around in the past decade to where it is today.

As well, though, in the past few years the economic stability and growth in the province's economy have helped fuel our industry. There is no question that consumer confidence is on the rise, and with it there is a greater willingness for folks to open their wallets in areas like tourism and entertainment. We see it every day at our winery retail stores, at our winery restaurants. People are buying more wine, they're coming out in greater numbers, they're bringing friends, to an extent that we wouldn't have anticipated a few years ago. We believe that this whole general sense of confidence in the economy is helping fuel that.

A lot of why we believe that is anecdotal, but I think on the other side of the coin there's some pretty significant evidence that when the economy is unstable and in trouble and people lose confidence, it has a direct impact on sales. In our case, this has been true this year in relation to the Asian economy. As a rule, one little liquor store in Niagara-on-the-Lake in an average year sells about $600,000 of our province's icewine; singlehandedly, they're responsible for about a fifth of the amount of icewine we sell as a province, and they do that because they get a tremendous influx of Japanese tourists every year and Japanese tourists tend to cart out our icewine in multiple cases.

This year, the drop in the Asian tourism market produced a significant drop in tourists in the Niagara region, particularly Niagara-on-the-Lake, where there's a fairly large influx of Japanese tourists. The net result for us was a 24% drop in the amount of icewine that that one little store sold in a year. That's a pretty huge impact on the industry and again is almost entirely attributable to that drop in Japanese tourism. It's a small example in overall economic terms but I think an enlightening one, because it again suggests the importance of the consumer confidence and ability to spend money on things like tourism and travel and entertainment.

Looking at specifics from last year's budget, our industry benefited from a number of undertakings. As many of you who were involved in the committee hearings know, we were promised a solution in the last budget to the inequities in the assessment system that caused estate wineries in the province to experience thousand-fold increases in their assessment costs. During the year, new regulations were developed to address this issue. The changes received all-party support during the committee hearing process. We were very pleased with that. It made things run a lot more smoothly.

As a result, we have a solution to that problem that has benefited the industry tremendously. The net result of that solution is that a number of wineries that were putting off planned expansions because of those assessment increases have actually started expanding again. We have a couple of wineries that are expected to about double in size over the next few months as a result of an ability to invest that money against their plant. All of that has been very important to our industry.

Equally important, of course, is our ability to market our products once we get them produced and bottled. But because so many of the wineries, as many of you know, are small, family-based operations, marketing funds are very hard to come by. By all standards, we're a pretty small industry worldwide. We compete in Ontario against European and American imported wines that are heavily subsidized by their home governments in their marketing efforts abroad and receive tremendous support. So we face a pretty uphill battle to reach consumers even in our home market, that we should own.

This year, the Grow Ontario program provided tremendous assistance to us in this area by offering matching funds for programs in the area of marketing and research. The Ontario wine industry, because we're agriculturally based, was able to join in partnership with the grape growing marketing board, and through that partnership secured funds to help market our premium wines, our Vintners Quality Alliance wines. The resulting market share gains that we made with the help of Grow Ontario helped drive increased plantings of the fine wine grapes from which our premium wines are made and which is really fuelling development in the peninsula. We were very pleased to see this initiative and pleased to see the continuation of agricultural incentives through the recent announcement of the rural jobs strategy. We think that program will continue the good work of Grow Ontario.

We have a bit of a vested interest in it because it helped us, but frankly, just looking at the Niagara Peninsula, there's no question that it was a tremendous benefit across the peninsula for folks in agricultural endeavours who had to do some more serious thinking than they ever had in the past about how they take their product from the farm gate through to marketing to the consumer. That's not something the agricultural community, in our experience, is particularly adept at, and this program helped a lot of those folks start to think through some of those ideas and put programs in place to help the marketing end of what they make.

In addition, just recently the announcement of the extension of credit to licensees for the purchase of alcohol benefits not only the Ontario restaurant industry and the industry in general but also our industry by making it

easier for folks who buy our wine in volume to manage their cash flow effectively, and in the restaurant industry, where margins are pretty thin, that's a pretty important issue. There's a cost to the Ontario government of providing that benefit, but we think the net result in terms of job creation and economic development is going to be well worth the investment.

All in all, we're pleased with the economic thrust of the government over the past year. We're supportive of a continued focus on deficit reduction, economic stability and job growth, at least as it relates to the domestic wine industry.

I guess the other piece today is, what would we like to see in this year's budget to help us continue our growth and development? Of course, even though we have a lot of good news to report, there are always things we want in addition. Most important, there's this need for a stable economic and business environment to help our industry develop long-range plans. That hasn't always been easy. As those of you who have been involved in the Ontario government for a number of years will know, since the inception of free trade in the late 1980s, frankly it has been a bit of a mug's game to try to determine from one year to the next what the environment is going to be in terms of policy around the Ontario wine industry. Free trade and GATT have driven a lot of difficult decisions at the government level that have impacted on our business. This uncertainty isn't very conducive to growth in our industry, and with tens of millions of dollars being invested in the industry by growers and wineries, it's more critical today than it has ever been that we have a predictable business environment to invest and plan against.

1710

We are a highly regulated industry, so of course we're not the masters of our destiny entirely in relation to our business environment; it can be dramatically affected by government policy decisions. For that reason, we were concerned with initial ideas about where the government might be going in relation to the LCBO, which of course buys and sells most of our product. We've been really pleased to see that in the past year there seems to be a change in focus away from privatization and towards the retention of the liquor board and a modernization process at the board that is more customer-focused and yet falls short of completely overhauling the system, with all of the disruption that would cause in our sector.

Over the next year we think it's equally important that whatever decisions are considered by the government in relation to the liquor board, they be taken after careful consideration and consultation with affected parties, including the wine industry. At the end of the day, modernization, if it's not carefully considered, can end up with the same dramatic dislocation as privatization but done more subtly so it's harder to comment on. To make change for the sake of change, we think, or without fully understanding the cost of those changes to Ontario producers would probably wipe out the hard-won gains our industry has made over the past decade. So we caution against swift action or ill-considered action in relation to the liquor board.

As well, as changes are considered, it is really important to us that the government bear in mind the ongoing importance of the Ontario winery retail store system to the health of the domestic industry. Although we have done really well in the liquor board over the past few years, in actual fact the most significant gains we have made as an industry in market share have been made through our own winery retail store system and the direct access we have to wine consumers through those stores. Domestic wine stores separate from the LCBO represent the only advantage over imported wines our industry retains in its home market after free trade. There have been a lot of fundamental changes wrought on our industry as a result of free trade.

In contrast, the wine industry in Europe and in other places hasn't followed suit. In Europe they get over $6 billion in subsidies every year. OMAFRA has tracked that and developed a fairly sound analysis. That's in spite of international trade agreements. The US industry is heavily subsidized as well to sell wine into the Ontario market. While Ontario and Canada, as is always the case with Canadians, have been quick to rush to meet our own trade obligations, other countries have not been nearly as diligent. We have on record 70 adjudicated violations of the GATT agreement by the United States that the United States acknowledges they are in violation of and on which their Congress has simply said: "Well, that's really interesting news. Have a nice day." That's very American. We're very Canadian. So we're left with very few advantages in our home market, and every day we face subsidized imports in our marketplace that don't compete with us on a level playing field.

We're really concerned that any changes that are made to enhance the profitability of the LCBO are done bearing in mind the importance of our winery retail store system, the need for that system to maintain a competitive advantage and the fact that frankly that's the only competitive advantage we continue to have in our home market. Given the fact that our governments federally and provincially are not able to fight the kind of fight in defence of our wine industry that Europeans and Americans can — it's simply a numbers game; the value of the wine industry in Europe far surpasses the value of the industry here — it's very difficult to train our guns to the same extent against the Europeans as they train on us.

Following that, we have been pretty heartened over the last few months by the Minister of Consumer and Commercial Relations' recent remarks indicating a willingness to work with the federal government to try to address the massive imbalance in wine trade between Ontario and Europe. Right now, the Europeans bring in $300 million in wine to Ontario for sale, and in a good year we have $1 million worth of wine in return sales. So there's a real imbalance there. We're wide open to Europe; they are very closed to us.

We think it's critical that as long as the Ontario wine industry is barred from doing business in Europe, the

Ontario government, through the liquor board, not extend new benefits and new marketing advantages to foreign wines. We're not asking to cut back the number of wines we bring in or to disadvantage them in our marketplace, but we are suggesting that no new advantages be put in place.

That's pretty tempting, frankly, because the liquor board can add all sorts of charges to wineries. Those charges are readily payable by folks who are using government-subsidized dollars from offshore. It's not so easy for us to carry some of the freight of those costs. In the last year, the liquor board has increased costs of doing business to the industry by about 84%. Those costs again are more readily absorbed by foreign countries with large marketing budgets than they are by our estate wineries. So again it's an issue that we think the government should pay some attention to when the liquor board comes asking for changes to be made to increase their profitability.

Another priority for our industry is the need to legislate and enforce the rules we have developed for the production of our premium wines, which carry the Vintners Quality Alliance symbol. We know this is a curious thing to be asking of government. We, as an industry, routinely chafe against increased regulation, but now we are coming to you and asking you to increase the regulation on our system, coming and asking a government that has a visible commitment to reducing regulation to produce more.

We think there are some really compelling reasons for doing this. I'm sure many of you know that the industry has developed voluntary standards for the production of fine wines. We had to do this, frankly, to address a lot of quality issues that existed in the industry 10 years ago, when our flagship was Baby Duck. That has changed a lot over the years. It still leaves us with a gap for entry-level drinkers that Baby Duck filled, frankly. But at any rate, there were some real and compelling reasons to establish a quality control system for our wines, and we did that. For a long while, it was enough just to have the standards written down and in place. We knew we had a quality assurance problem, so it wasn't all that difficult to get our folks to play along.

Today, though, we're at a point in time where in order to ensure that the system is credible and enforceable at home, and frankly in trying to get access to the European markets, it has become critical that there is a government stamp of approval on those rules and regulations. It's not enough any more to say, "We're all nice guys and we all play well together, so we'll enforce our own standards."

That has become particularly critical in ice wine. Icewine has become a very big piece of our business, a very profitable piece of our business. As some of you probably know from reading the news reports, this hasn't been a very kind winter for us and we have lost a lot of the icewine crop out there in nice, warm El Niño weather.

We're very concerned that growers who stand to lose a lot of money in this area, and some wineries that do as well, will start harvesting that icewine at temperatures that fall short of our standards, ship it off to the States and let producers in the States ship it right back here and call it icewine even though it's not. We're concerned that some of our own wineries may be in that business this year as well.

The net result of that sort of thing going on is that it will reduce the credibility and the value of what has become a very important product for us, and frankly a very highly priced product. So there are lots of good reasons for us to find a way to protect those standards that assure the public that what they get in the bottle is value and is monitored and conforms to standards that are enforceable.

One of the reasons Europeans claim as well that we don't have access to their market is that they say we lack a government-sanctioned system of rules for winemaking, and they are right. The VQA rules and regulations will go some way to addressing this issue. There's no question there are federal issues at play as well. But the British Columbia government, trying to get a step ahead of things, has taken action and legislated VQA rules and regulations in their own province. We think there would be tremendous value in having the same sort of system legislated in Ontario, where 90% of the wine is grown anyway, and we think we might be able to take those regulations to the bank and persuade the Europeans that on that basis we should have access that we don't have today.

I guess the biggest stumbling block to all of this is that there is going to be a cost involved in legislating and enforcing such a system. Obviously, our industry is quite prepared to help cover these costs. Here's the rub: In every other winemaking country, there is a government partnership with the industry in regulating its activities and paying for those activities. Given the fact that our industry is about one tenth the size of the next-smallest significant wine-producing country in the world, we feel we are going to need that partnership with government, at least in the early going, to make sure our regulatory system is enforceable and affordable, at least early on.

Recognizing that government never likes to hear requests for additional money, we think, like the licensee credit system, we can produce some real benefits in job creation, increased sales and general economic activity through the regulation of our fine wine side that will make it worth the investment in dollars.

1720

Finally, we think the government's efforts to enhance the marketing research and technological expertise of the agricultural sector in Ontario through a matching funds program should continue. It's been our experience that programs like Grow Ontario and the rural job strategy play an important role in helping the agricultural industry mature and come together to implement new strategies around marketing and value added, and quality assurance, frankly. In the agricultural community today, we are still pretty far behind in quality assurance measures. Some of that needs to be taken on in the next little while.

We think these strategies are critical to long-term growth. We encourage government to continue the support as a way of assisting agriculture to grow and develop the

expertise that it needs to compete in the next century, and so we support the continuation of these sorts of programs.

That's my wish list. We appreciate the opportunity to come and offer that wish list up to you as a committee and the opportunity to share our views of the past year.

The Chair: We have about two minutes per caucus, and we'll start with the government.

Mr Wettlaufer: Hello, Linda. Good seeing you again.

Ms Franklin: You too.

Mr Wettlaufer: I'd like to talk briefly about the marketing aspect. I've had comments made to me from various constituents, and I know in the past I certainly had the same problem myself, that late at night — or not necessarily late at night but at 8 o'clock at night — company shows up at the door and you don't have any wine, and you go out and the wine stores are closed. I get over that problem now by buying wine by the case. I make sure I have an adequate supply. Mind you, I pay for a case what Gilles Pouliot pays for a bottle, but that's beside the point. Has any thought been given to extending some of the wine store hours?

Ms Franklin: We would love to have that opportunity, frankly. It's out of our hands. Our winery stores, as you may know, are in actual fact agency stores of the liquor board, so all of their activities are governed by the liquor board. For the past little while, when the liquor board wasn't allowed to open late at night, they weren't really happy to have their competition open late at night. We've asked for this a number of times; we've been turned down a number of times. But yes, we would be very happy if there was a mindset that said there should be some extended hours. Particularly in areas where there's high demand, high traffic, it would make some sense, we think.

Mr Phillips: Just a comment and then a question. This is an industry where I think 15 years ago there was a question about its future. There was a feeling that it was at risk. It is one of the real success stories in North America probably of an industry that invested in improving its product and worked hard at it, and now not only is it a huge wine industry but it's a huge tourism industry too, which is a terrific double bonus for us. I think governments of all political stripes are anxious that it continue to grow, and I would just commend the industry.

My question is on the privatization of the liquor outlets, because I think probably 12 to 18 months ago that would have been high on the government's priority list. I'm not sure where it is now. Can you just help us understand the implications to the wine industry of the privatization of the liquor retail outlets?

Ms Franklin: As we first understood it a couple of years ago when we were looking at wholesale privatization of the system as one option on the table, our view was that it was a pretty devastating option for a lot of reasons, one of them being that we now have an industry that is about 45 strong in total, and nine tenths of the players represent 20% of the volume. They're small estate wineries. There are a couple of very large companies, Andrés and Vincor. The rest are very small businesses, family run in most cases.

Today, because of the LCBO, a family operation of three can survive. They send one fellow into the liquor board and they meet with the wine manager. If they have a good case to make why a product should be listed at the liquor board, they're suddenly in 600 outlets right across the province. So your ability to get some reach to consumers is relatively simple. If all of a sudden we were dealing with 600 mom-and-pop liquor stores across Ontario, that would be an impossible task. We would be looking at job creation, because you'd need a sales force for an estate winery, but in Alberta the experience has been that your cost of doing business increases so dramatically that it's virtually impossible to manage if you're a very small operation. So increased cost of doing business is one of our concerns.

The other one is that in Alberta they have resisted up until now putting beer and wine in grocery stores, but we think that eventually is going to collapse because it's discriminatory. In Ontario, the concern about privatization that would eventually allow Loblaws in the door to sell beer and wine is that it removes an entire area of play for some of our wineries. The large wineries would be able to produce wine in the volumes that the grocery stores demand to list their products, so they would probably be okay in their high-volume brands, but all the VQA products, all the premium wines, come nowhere near the kind of volume you would need to play in grocery outlets, so they would lose one important playing field. In exchange, they would probably have a series of fine wine stores, but the numbers of those would be much smaller and the range of product would probably be smaller. As I say, it would make life for the industry much more difficult.

The other piece that we would say is problematic is that you've got high-volume, enormous companies like E&J Gallo that in that sort of environment we expect would put tremendous dollars against owning the marketplace and would probably again reduce our market share fairly significantly.

Mr Pouliot: Madame Linda Franklin, you meet a lot of people by virtue of your profession. The last time — you might not recall this, but I do, vividly, for it's not too long ago — was during a late afternoon, not unlike today. I had mentioned then that wine was the purest form of a beverage. I quoted from Louis Pasteur, the scientist, the chemist, that it was the most hygienic beverage. You thought perhaps that I was presenting with tongue in cheek, because what I did ask is for the pleasure of having you pay us the compliment of your visit, your insight, your expertise, and bring samples.

I have two questions. The first one is, where are the samples — and we're not talking about Baby Ducks or duckettes. Where are the samples for the members, for our staff and the members of the committee?

Ms Franklin: To answer that question, Mr Pouliot, I do remember that vividly from our last meeting.

Mr Baird: They're available for purchase at the gift shop.

Ms Franklin: I think at the time I mentioned to you — and frankly I'm dismayed and disappointed that there hasn't been more action on the part of the government towards this end — that if the sanction against donations of wine could be removed from our industry, we would be only too happy to have this conversation in the —

Mr Pouliot: By final supplementary, I take a great deal of pride in listening to your presentation. This is indeed a success story. It's true that people will say we came a long way. We have some international recognition; we're growing in range. The advent of the ice wine has given us a new opening, if you wish.

My friends opposite have mentioned the possibility of looking at the grocery store. I know little, but I'm certainly aware that in the province of Quebec they don't grow much wine. They know about their capacity; that they know very well. So what they do is they import a blend, if you wish, and then they make it available to different outlets: the ma-and-pa store, the dépanneur. It's more flexible. It's available seven days a week. Statistics will attest that people don't consume more — maybe not less, but it is not a major factor in it.

Would you make a presentation to the government regarding those specifics, with some examples, so that you would get not an advantage, but certainly an opportunity to put the products of the people you represent forward in the best possible light?

Ms Franklin: We would love to look at those sorts of opportunities. I guess the difficulty for us and one of the cautions around changes to the system as it stands is that the Quebec system that you referred to, the dépanneur system, existed before the free trade agreement. So they had a system in place that allowed folks who had a domestic winery — and by that they meant a factory that brought in blended wine but created jobs in Quebec. If you have a presence in Quebec, you have a right to be in the dépanneur system. If you don't have a winery in Quebec, you're not in the wine store.

If Quebec wanted to introduce that system tomorrow, they wouldn't be allowed to because it would violate free trade. But because it existed prior to free trade, like our winery retail store system, it's frozen in time. It's grandfathered. If you tried to duplicate that in Ontario today, you would run afoul of these same free trade issues and it wouldn't be allowed.

As I say, for us it's very important that the government understand, as it looks towards modernizing, changing, advancing the liquor retailing system, what the long-range and short-range ramifications of those changes are, because nine times out of 10, I've got to tell you, some of the ramifications will mean a disaster for our industry. They may not be readily visible. As I say, it's largely because of all these curious complications that the free trade arrangement has brought to our marketplace.

The Chair: Thank you very much for your presentation and for your time.

Gentlemen, we adjourn at this time until 9:30 tomorrow morning, when we're in committee room 1.

The committee adjourned at 1732.

ERRATUM

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First Intersession, 36th Parliament

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Published by the Legislative Assembly of Ontario

Service du Journal des débats
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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 17 February 1998

Mardi 17 février 1998

The committee met at 0933 in committee room 1.

PRE-BUDGET CONSULTATIONS

CREDIT UNION CENTRAL OF ONTARIO

The Chair (Mr Gary Guzzo): Our first presenter this morning is the Credit Union Central of Ontario, Jonathan Guss, president and CEO, and Lorrie McKee, government relations officer. Welcome. We have one half-hour for your presentation, which you may use as you see fit. Please proceed.

Mr Jonathan Guss: Good morning. We're delighted to be here and thank you for the opportunity. We're here on behalf of our 322 member credit unions. As many of you know, the central, our organization provides a central banking function and other services for 93% of Ontario's credit unions.

We want to talk to you this morning about credit unions: how they're faring, where they fit into today's marketplace. We also want to spend some time talking about recent initiatives of the government and make some recommendations regarding the 1998 budget, which of course is why we're here.

To provide the context, I'm going to turn it over to Lorrie McKee, and then I'll come back on some of the hard points.

Ms Lorrie McKee: As you probably all know, credit unions are community-based financial institutions. They are located in every corner of the province and they offer a full range of financial services to their members. Virtually gone are the days when the credit unions only provided savings and loan services to their members. Today they still continue to offer those same core services, they still provide their members with the loans they need to purchase necessary consumer goods, homes and cars, but they also offer their members lines of credit, RRSPs, RRIFs, mutual funds, credit and debit cards, loan insurance, and financial planning and counselling.

More than 1.6 million Ontarians put their trust, not to mention $13.4 billion of their money, in a credit union or caisse populaire. This creates direct employment for 5,000 Ontarians. In some communities, the credit union or caisse populaire is the only institution offering financial services. While linked provincially and nationally to other credit unions, each credit union operates independently under the direction of a board. These boards are run by 3,500 volunteers throughout the province.

Ontario's provincially regulated financial services have witnessed significant change in the last few years and even months. Government is taking a close look at how it regulates this industry and is questioning its role and responsibilities. Provincially regulated trust companies are soon to be transferred to the federal level.

A new commission, the Financial Services Commission of Ontario, has been established. It brings together the regulation of mortgage brokers, insurance companies, pension funds, cooperatives and, until they're transferred to the federal level, trust companies. The government is also reviewing its rationale for direct involvement in the banking business through the Province of Ontario Savings Office. One result of all of this change is that credit unions will soon become the only full-service deposit-taking institution regulated by the province of Ontario.

At the same time, changes in the financial services industry as a whole have left credit unions as the domestic alternative to the banks for consumers. The mega-merger announced between the Bank of Montreal and the Royal Bank makes the lack of alternatives even more apparent. People today are frustrated with domestic banks. You hear it every day. They are looking for an alternative.

Many of our member credit unions are taking advantage of the opportunities that have been created by the announcement of the mega-merger. You may have noticed a week ago Saturday that Metro Credit Union had a full-page ad in the Toronto Star. The heading read: "Mega-Banks? No Thanks."

Our existing members already know and understand the benefits of membership. In a recent national survey, Canadians said that for quality of service, credit unions ranked in the top three of 21 industries, behind pharmacies and hotels. The banks ranked in the bottom five. The Canadian Federation of Independent Business, which was before this committee last week, has consistently found that credit unions get the highest approval rating for small business borrowers.

At the same time, our system has maintained an impressive record. No member of an Ontario credit union has ever lost a dime of his or her deposit, nor has there ever been a need for the Ontario government to bail out the credit union system.

As in the rest of the financial service industry, our system is experiencing consolidation. We need this

consolidation to achieve the appropriate critical mass to compete. Not too many years ago, there were more than 1,400 credit unions in Ontario. Today there are fewer than 400, and we don't expect the pace of consolidation to let up. The difference between consolidation in our system and that which is occurring in the banking system is that the banks are consolidating to better compete in international markets, whereas credit unions are consolidating to better serve Ontarians.

There is no question that our future depends on our ability to remain a strong and viable alternative. The regulatory environment in which we operate is a critical factor and will be the difference between our success and failure.

At this point, I'll turn it back to Jonathan.

Mr Guss: Lorrie has provided you with a picture of the environment in which we operate. I want to take a minute to talk about credit unions as a domestic alternative in the financial services marketplace. In our view, obviously credit union consumers are better served if there is an alternative. Competition, as you know and believe, is a very important thing in the marketplace. Today, credit unions are the only domestic alternative.

I was surprised when I heard Mr Martin's speech the other day and read of it in the papers. In his early speeches, he hadn't mentioned credit unions. In his most recent statement, he simply mentioned foreign banks as the alternative. I think this government owes it to the people of Ontario to be sure we are there as an alternative. It's very important, and we must be taken account of.

0940

We're community-based and will remain so. We have no global aspirations, as Lorrie mentioned. We are efficient, reliable circulators of local capital. When people put their money in a caisse pop or a credit union, it stays in the community. When we're profitable, it goes back to those people and gets reinvested in the community. Unlike the chartered banks, we have no global aspirations; we are not interested in competing in the international markets. When things get bad in a given town, the credit union doesn't move out. It doesn't say: "Gee, I think I'll move my money from Windsor to Calgary. The market in Calgary is high." I think I'll leave my money in Windsor, because that's where the credit union is based; that's their community.

On the financial side, some of you had experience in the 1980s where credit unions were not strong. We are now perfectly well capitalized. Our capital is at the same level as the banks', I am very proud to say, and we are profitable. But unlike the banks, we are not earning massive profits. We put member service above shareholder value. Member service is always first, so you will not read about our massive profits.

As Lorrie mentioned, the consolidation of the domestic banking system is an opportunity for us, and some of our credit unions have started taking advantage of it. But let's put it in perspective. When we talk about mergers in the credit union system, we're not talking about multibillion-dollar institutions. Our largest credit union in Ontario is just under $1 billion. Yet as noted, all the credit unions and caisses pops in Ontario have, together, on the order of $14 billion.

The Canadian domestic banks are making their profits primarily from fee income, not from taking deposits and lending, so we have started to compete in the same area. The margin on loans is very slender and barely covers costs, so all of us have to make money by providing other services for fee income. We also have gone into the business of financial advice, planning, investment products, mutual funds etc. But personal lending continues to be the bread and butter of credit unions and we will not leave our members out of the financial picture.

The other distinguishing fact about credit unions is that we cannot be bought or taken over, so while you watch the banks merge — and they will, in the next few years, despite the brave statements of those who are not yet involved — nobody is going to buy credit unions. We read where one Canadian western bank said, "We're going to grow by taking over credit unions." It is technically possible. It won't happen. Credit union members will not sell their shares to a bank. They cannot really be bought. We will remain community-based.

Our members want government to reduce costs and regulatory burdens, and we want you to provide the environment for credit unions to grow and serve more Ontarians. The current government prides itself on tax reduction and on reduction of the regulatory burden, yet our members are troubled by the number of initiatives undertaken by this government in the last two years, initiatives that have imposed a burden on us. I know you didn't mean to do it, but when you take them all together, it adds up to a heck of a cost. I can't come in here without walking through some of these pictures. It has left us with the impression that maybe there is no overall strategy for the financial services industry in which you see us. We think we're so important to the Ontario economy, with our $14 billion, that we have to look at the individual pieces to show you what has happened.

First of all, there's the capital tax. It's very simple. After years of encouragement to build up capital, which we responded to — we got our capital up to over 5% of assets — now the government has turned around and said: "Thank you for building your capital. We're going to tax it." There's now a tax on credit union capital. It's $3 million for all our credit unions, which may not sound like a lot, but you have to see the $3 million coming on $53 million of aggregate profits and on top of the other taxes we pay. So $3 million doesn't sound like a lot, but take a credit union with about $125 million of assets. It has net earnings of $380,000, and then on top of that has to pay $42,000 in capital tax. That's more than 10% of its net income. That's brutal. They're paying income tax at the 23% rate, and then on top of that they have to pay 10% capital tax. It nets out, because of the deductions involved, to a 35% tax increase on that particular credit union.

Let's be clear. The tax was introduced by this government for a good reason. It was a carrot to entice the banks to make more money available to small businesses, and we applaud that, but credit unions already lend to

small businesses in a big way, and we're increasing the amount of lending we do to small businesses, so we do it without any carrots, without any sticks, and this carrot is hurting us.

The second thing I should talk about is the financial services institution. Again, it's a fine idea. It's a great and efficient way to oversee credit unions. You have appointed Dina Palozzi to be the head of it, the CEO. She's an excellent choice. She knows the financial services industry and she knows us, and we're very happy and support that choice. However, for the first time, we will have to pay a fee for government regulation, an annual assessment to pay for our examinations and regulation. Again, it doesn't sound like much. We haven't been told exactly how much it will be, but we expect it will be in the order of $3 million a year. It turns out to be pretty well the same amount as the capital tax, so you have to add that again on top of the taxes I've already talked about.

We have received assurances that the cost will be fair, and we believe it. We know they're trying to cut the cost of the regulatory agency before they actually bring in the charge on credit unions, but in our eyes it's one more hit by this government, one more tax on our profitability, and it makes it very difficult for us to build up retained earnings and capital, which we have to do.

Finally, I have to talk about the premiums on our deposit insurance. There is a schedule 3 agency, which is the Deposit Insurance Corp of Ontario, much better managed in the last five years than it had been before, working very well to help the system grow and help the system have a solid financial base. However, the premium is way out of line. Credit unions pay premiums of $2.10 per $1,000 of deposits, so every time you go into your credit union and put in $1,000, the credit union immediately has to think: "Do we want this $1,000? We have to make $2.10 just to pay for deposit insurance before we do anything with it." Why is $2.10 not right? The banks are paying CDIC $1.67, roughly 40 cents less, per $1,000 of assets. The first thing we have to do is get that $2.10 down to $1.67.

The other thing we're doing is we're paying on all deposits. We're allowed to brag that DICO insures $60,000 of deposits; in fact, we're paying for deposit insurance on all our deposits. The banks only pay on the first $60,000; we pay $2.10 per $1,000 on every $1,000 that comes in. So we're saying if DICO needs the money, that's fine; let us brag about the fact that we have 100% coverage. We've got the capital, we've got the profitability performance now; let us brag about 100% coverage, or for goodness' sake, if we're paying that, get it down. If we're only bragging about $60,000, then we should only be paying for $60,000. It's very simple. If you went to your insurer and had to pay for more than you were getting, you'd probably get a lawyer to fix it if the insurer wouldn't fix it, so it's time for the government to change the DICO premium regulation. We have started a consulting process. The DICO board has met with us and agreed to meet with us again, but we have to have assurance that by January 1, 1999, that deposit insurance premium is fair and comes down. There's no question about it.

One of our largest credit unions, Niagara — it is our largest member — pays $1.7 million in deposit insurance premiums. If they were a bank, they would be paying $1.1 million. It would be much more sensible and much more efficient for them to change their structure and become a small community bank under federal regulation. They have enough capital to do it. I've worked for the federal government. I know how to set one up. It would be much more efficient for them to operate as a bank and not as a credit union, and this province would lose them as a community-based organization, so you've got to take action on this or credit unions are going to look at federal regulation. We need to see changes in the premium.

0950

Also, the Ontario government introduced a tax on that premium, which we see as a tax on the tax. It predates the Tory government, but I have to mention that it's a tax which is very painful for us to pay. We pay 8% tax on our deposit insurance premium. All in all, we're really feeling the pressure of all these costs and burdens of government.

Finally, just to note: Our act was passed in 1994 and the main regulations came out in 1995. In the course of 1995, the government itself identified a broad variety of other regulatory changes we needed. They have never been put in place. We have been waiting since 1996 for them, for two years. We need those changes. It's a red tape issue but it simply hasn't gotten into the red tape process. It's either been rejected or set aside, and we need action on our regs.

I'll finally get to my conclusion. I've taken a little longer; I was a little more discursive than I had planned to be. You got me on my favourite subject. As you can see, government issues are eating away at the bottom line of the credit unions. The policies seem somewhat disjointed and uncoordinated. We think you need and would like to have an overall policy for financial institutions in Ontario. I think you understand, as individual members, the role that credit unions play in your community. You understand how they don't leave the communities when the economy is bad. You understand how, when the economy is hot somewhere else, that credit union money stays in the community. It's invested in local jobs.

They're very important members of your communities, they're terrific players, but the cumulative impact is hurting us and we need an overall policy that says, "We are going to help credit unions." We especially need a policy now, with the mega-mergers and the future of mega-banks in this industry that will say, "Credit unions, we recognize you exist and we are going to encourage you to grow," because we are committed to your communities and to the growth of the economies in your communities.

We'd be pleased to answer any questions. Thank you.

The Chair: We have approximately three minutes per caucus. Today being day six, we should start with the government caucus, I believe. Any questions? No. I'll move to the opposition.

Mr Gerry Phillips (Scarborough-Agincourt): I'll start off. Your primary concern is about the costs you're

feeling added on to your organization. It looks to me like this year there will be a total of new costs of somewhere around $4 million to $6 million.

Mr Guss: Yes. I should clarify that the capital tax is being rolled in over a number of years, so when it reaches its peak in 2002, it will be $3 million — by then it will be more, but if it were in right away, it would be $3 million. It's being rolled in over a number of years, but it will be $3 million, and the cost of the regulatory agency will be $3 million to us, so it's about $6 million in total.

Mr Phillips: Just refresh my memory. Is that a tax that can be "earned back" with loans to small business?

Mr Guss: Yes, and it was introduced to encourage the banks to make loans to small business, but we're already making loans to small business in the communities and it's growing. That business is growing like Topsy, and the program requires the loans to be made below prime. I think the point we would make is that if we make loans below prime, we'll lose money on them, and the people who want the loans aren't having a problem with the rate. They're having a problem with access. They're having trouble getting the money, so they would be glad to pay prime plus 1%, prime plus 2%, prime plus 3%, the kind of rates we offer. We aren't charging as much as the banks, who go even higher than that on business loans, but it's access that's the problem.

Mr Phillips: So is your argument on this one that the definition for "earn-back," or whatever the right language is, penalizes the credit unions whereas the banks may be able to "earn back" the tax through loans to small business, that you are in a different position from them and therefore it looks like you very well may have to pay the full tax with little opportunity to earn it back? Is that your argument?

Mr Guss: Lorrie, do you want to address that?

Ms McKee: I think the banks have similar concerns that I've heard with the earn-back provision. There are concerns about the size of the loan that is specified in the earn-back provision, concerns that they've focused on the rate of the loan versus the access and the volume of loans and just the red tape and bureaucracy they have to go through to actually earn it back. There are some concerns whether it's actually worthwhile. Most of the credit unions we've talked to, to date, are saying that if they have existing members, commercial clients, where they can meet the criteria they'll do it, but these are existing clients. It's not providing access to moneys for new businesses, and I think that was the intention.

Mr Guss: Also, the threshold goes all the way up to $400 million of capital. If you have $2 million or $400 million, you're treated the same way. So they're basically treating the small player exactly the same way as much larger players, and by introducing more discriminating levels of thresholds, it would be more applicable to our people without being so painful.

The Chair: Thank you, Mr Guss. I move to Mr Pouliot.

Mr Phillips: Don't we split the remaining time when one caucus doesn't want —

The Chair: Right.

Mr Phillips: So we've taken how much time?

The Chair: Four minutes.

Mr Phillips: The arithmetic is unusual, but go ahead.

Mr Gilles Pouliot (Lake Nipigon): Good morning to you, Chair. Thank you again for the compliment of your presentation. Maybe one comment vis-à-vis your spontaneity and two quick questions, if I may. With respect, you departed from form and became bold. You spontaneously said that in your opinion — well, when you're here presenting a brief in front of the committee it is in the opinion of the credit union, I take it — there will be a merger — that was your tone — regardless of the bravado of the most recent statement from Mr Martin, the federal Minister of Finance. My opinion would be that Mr Martin will be consistent as a Liberal, as an international view. Who would be opposed to, it can be anyone, but let's say Canada Steamship Lines with a Liberian flag, a crew from the Philippines and the insurance carrier being Lloyd's of London. The market capitalization in Canada is less than 3%.

Then you've said that you welcome the opportunity to niche the market, if you will, to establish a niche, which has been your mandate. I need some clarity. When it comes to deposit insurance, the max at $60,000, the chartered pay $1.67 per $1,000 of deposit and you pay $2.10.

Mr Guss: Right.

Mr Pouliot: You mentioned that no one has ever sort of "defaulted." Yet if I listen, and I'll be candid, to the caisses populaires, they're saying that on account of being pooled with you, with the credit union, it puts pressure on their rates as well. It's not whom do you believe. I would love to see the credit unions, because you're only inviting people to put in $60,000 — that's what the coverage says, that's universal — "No one has ever defaulted. Beware of mergers and takeovers," and you would like to pay the same rate as the banks. Otherwise, you are at a disadvantage because on the GIC rate you must compete, and compete big time. Otherwise, you won't get Miss Jones and Mr Smith tapping into your GIC.

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I'm a believer in credit unions. They're close to the community and I think everybody on the committee believes that competition in the marketplace is what the system is all about, more so than ever before when we look at a giant, and you don't want to stop their growth — far from it — but by the same token you want to give everybody a level playing field.

On the regulation, I don't wish to always play politics, Mr Chairman, but I truly believe that anything that would expedite, that would make your life simpler, would be adhered to by all parties. We don't have the ability to have the cabinet call the bill, but the régime du jour has had a very busy agenda, as you know. Once you are embarked on a revolution, sometimes you would wish to advance on many fronts, and that occupies a lot of time. But you have reminded them through your brief that in order to stay

competitive, you need those regulations out of the way, to take place, to cut some of the red tape.

One final comment: On the life income fund, one of your pet subjects and you've attached it, you make a recommendation. I'm not talking about the RIF; I'm talking about the mechanism, the key to go from a locked-in retirement arrangement to a life income fund. You copied that from two other western provinces, where you don't have to fork over the money in the form of an annuity by the time you're age 80, and you stop at that. The dilemma that some of my constituents have is that the company has made the transition, has given them a lump-sum payment, a buyout, and it goes into a locked-in arrangement. I have this one chap — the sum is $171,000 — who worked many years for a mining company. He's been diagnosed with terminal cancer. He wants to go back to his roots, to England. Because the GICs are so low at present, he's only entitled to take — he's in his late fifties — about $10,000. I think his rate is 7.62% or something. It's his money and there is no contingency for him to have access to his money. If he were in another kind of arrangement, if he were in a RIF, of course he would be subjected to a minimum, but he could take it all out if he wanted to fix the fence, if he wanted to go to England.

I hoped your recommendations would have gone further, but I think you're right on. It was page 42 of the last budget book. Mr Baird and I have had some discussion, but they keep passing the dollars because they do such a good job in such a hurry that they keep being moved around. So now I've got to deal with Mr Young. Thank you for reminding us.

The Chair: I'm sorry, we have no time for the comment. This is not unusual here. We have no time for your response, but we thank you for your submission and for your time this morning.

Mr Guss: I was delighted to be here. Thank you.

ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

The Chair: The next presenter this morning is the Ontario Federation of University Faculty Associations, Ms Flynn, president. Welcome and thank you for being here. We have 30 minutes this morning and I'd ask you to introduce your associates.

Dr Deborah Flynn: I'm Dr Flynn, the president of OCUFA. To my left is Mark Rosenfeld, the government and community relations officer, and to my right is Henry Mandelbaum, the acting executive director of OCUFA.

The Ontario Confederation of University Faculty Associations, representing 10,000 university professors and academic librarians across the province, appreciates the opportunity to bring its concerns and recommendations to the pre-budget hearings of the standing committee on finance and economic affairs.

As with others in the university community, we are dismayed by the position of the current government to continue the pattern of disinvestment in higher education begun by previous governments. We are equally dismayed by the persistent shift in financial responsibility for post-secondary education to students and others in the private sector based on the questionable assumption that the benefits of higher education are more private than public.

More than a year ago, the government's Advisory Panel on Future Directions for Postsecondary Education held extensive hearings on the state of higher education in the province and released its report. The advisory panel highlighted the extent of underfunding in our universities. It recommended that the government address the problem by funding Ontario universities at the average for other Canadian provinces and reasonably in line with government support of major public universities in the United States. To date, the government has chosen to ignore one of the most important recommendations of its advisory panel.

Last year in its presentation to the standing committee, OCUFA noted that it looked forward to the upcoming provincial budget with a sense of hope for the future of Ontario universities. We stated that the time had come for the government to begin reinvesting in those institutions which contribute most to Ontario's long-term growth, foremost among these being Ontario's universities. The May 1997 budget and the finance minister's December 1997 economic statement have not been cause for great optimism for us. We can only continue to hope that as the government develops policies to position Ontario in the global economy and promote the economic, social and cultural welfare of the population, reinvestment in the province's universities will become integral to its strategy. It remains unclear, however, that this particular government has the will to make that investment.

The government has chosen to allow universities in the province to remain at the bottom of the funding scale. Ontario, the wealthiest province in the country, ranks last in Canada in provincial operating grants per capita. Over the past two years, the province has reduced operating grant funding to universities by more than 15%, a figure which significantly exceeds cutbacks in any other province in Canada. Comparisons to the United States are equally stark for the same period. Forty-eight of the 50 states have either maintained or increased their funding for their public universities. Ontario universities are consequently becoming increasingly uncompetitive with comparable American universities as well as lagging behind other Canadian jurisdictions.

In other areas of public spending, such as elementary and secondary education, health care and social assistance, the government has measured the expenditures against the national average when making its decisions about future outlays of money. The government's use of comparative statistics, however, appears to be very selective. If the government can use national expenditure patterns for elementary and secondary education to justify lowering Ontario's spending towards the national average, then surely national expenditure patterns for higher education should motivate the government to raise provincial spending on university operating grants towards the Canadian average.

Over the past five years, the province has reduced operating grants to universities by 25% or $539 million. Even with the large tuition increases for the same period, revenue from grants and fees is still $355 million below the 1992-93 level. When increases to the consumer price index are taken into account, such as a 5.9% increase since 1992-93, an extra $157 million would have been needed to keep pace with general inflation. Price increases for university books, periodicals, computers, lab equipment and other items purchased by universities are even larger than those indicated by the CPI. The cumulative increase in the Ontario university non-salary price index since 1992-93 is almost 20%.

This year, operating grants for universities were frozen, as you know, at the 1996-97 level. Ministry of Education and Training officials indicate that next year operating grants will again be frozen. In real terms this means a further deterioration in the operating grant support for universities.

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In a speech to representatives from business, government and universities last November, the Premier commented, "It is no secret that, like so many other institutions today, Ontario's universities are facing tremendous pressures on all fronts." Aggregate statistics tell one story of some of the pressures facing our universities, pressures which have been well documented by the Council of Ontario Universities. The experience of individual universities tells another story, putting more of a human face on these statistics.

Since 1990, the number of full-time faculty has declined by 1,055 and there are 1,142 fewer full-time non-academic staff positions. At the same time, full-time enrolment has grown by more than 8,000 students in the province. Universities are losing some of the most experienced teachers and researchers, which, in conjunction with a growing inability to replace faculty, threatens the quality and the integrity of academic programs. Moreover, as the government's advisory panel observed, this situation raises concern about a brain drain of Ontario faculty to jurisdictions offering better working conditions and research infrastructure.

What does this mean for individual universities? At McMaster University the number of professors decreased by 11% between 1992-93 and last year. At Queen's University the total number of non-medical faculty positions declined by 16% between 1991-92 and this year. At Waterloo faculty positions have been decreased by 13% between 1992 and last year. At the University of Western Ontario the number of faculty and staff has declined by more than 20% from 1990. Fewer faculty now teach more students in these and other universities. The result is larger classes, less time for advising students, conducting research and contributing to the administration of academic programs.

Universities are now buying 25% fewer books and periodicals since the 1970s. The amount spent for each student is half of what it was 20 years ago. While some universities are pooling their library resources, this is not possible for universities which are geographically isolated, particularly in northern Ontario. Students have increasingly less access to books and periodicals needed to complete research assignments. Faculty have less access to research material necessary for them to keep on top of their field of study.

University buildings have been aging during this time. The average building is now 20 to 30 years old and needs major repairs and renovation, while relatively few new buildings have been constructed. What has this meant for individual universities? Let me give you a few examples.

At the University of Toronto's Robarts Library, staff serving library users has been cut 25% in recent years and the materials processing staff has been reduced by half since the 1980s. As a result, there is a backlog of over 300,000 uncatalogued books at this library. Budget cuts limit the ability of Robarts Library to maintain and expand its book and periodical collection and remain a world-renowned research library.

At McMaster University, libraries were forced to cancel 576 subscriptions to academic journals and related serial publications in 1997. The health sciences library made its own additional cancellations during that time.

Due to library cuts at Nipissing University, students cannot rely exclusively on the library collection to do their research for major term papers. They have to obtain books and articles through interlibrary loans at a cost of $5 per item. The average term paper may have 20 articles needed by that student, so you're looking at roughly $100 to do a term paper because you are at an institution that simply cannot afford to keep its library stocked. There are a fair number of these students who travel to southern Ontario to use the libraries of larger universities. This is a significant and reprehensible additional expense for students whose educational costs are already very high. The only alternative is to lower the course requirements for term work, thereby lowering the quality of their education.

Investment in research is critical to keeping Ontario competitive in the global economy and enhancing the province's economic, social and cultural development. Indeed, as the Premier recently commented, Ontario must do more than simply lead other provinces in research performance.

Ontario universities' research capacity has deteriorated as a result of government cutbacks to operating grants and the overhead-infrastructure research envelope. We can no longer build and maintain the university system's physical research infrastructure nor can we hire or retain a calibre of faculty who become leaders in their field. As the government's advisory panel observed, the erosion of this intellectual and material research infrastructure has made it difficult for Ontario universities to compete for federal research grants. As a result, Ontario's share of federal research funding has declined from a high of 45% in the 1980s to a level of 35% at the present time.

Ontario universities are losing leading researchers not only to the United States and Europe but also to other provinces which offer superior facilities. They offer more research funding and better salaries to faculty. The gov-

ernment itself has recognized this problem. The 1997 Ontario budget noted:

"Ontario has not been successful enough in attracting and keeping these high-calibre researchers. In recent years the University of Toronto lost one of its world-class biotechnology researchers to British Columbia, one of the world's most promising astrophysicists to Princeton and a promising computer scientist also to Princeton."

The exodus continues. This year, a leading biotechnologist whose research has led to dramatic breakthroughs in understanding the aging process noted that he left McMaster University for California because of "Canada's dismal record of funding research." The problem of large federal government cutbacks to the research-granting councils has been compounded by provincial government reductions for research support.

The R&D challenge fund announced in May 1997 provides funding only for a very select group of disciplines and a very select group of universities in the research community. The fund primarily focuses on support for research-intensive universities which conduct applied research in the natural sciences, engineering and the health sciences. Disciplines and universities not geared to the production of applied, commercially viable research will have difficulty accessing this fund. In a climate of limited resources, universities will be tempted to divert support away from less lucrative basic research as well as social science and humanities research in order to obtain money from the matched fund.

Greater support for basic research in the sciences, social sciences and humanities, however, is also needed. As the Premier has observed, "Theoretical research is absolutely crucial to our ability to lead and excel in the race for the new ideas of the next century." A COU-commissioned study on provincial research policies revealed that British Columbia, Alberta and Quebec have been able to increase their share of federal research funding as a result of both a comprehensive provincial research policy and more supportive funding.

Last year the government commissioned the chair of its advisory panel, Dr David Smith, to write a report setting out a framework for an Ontario research policy. Among other recommendations, the report called for a balance in support for basic and applied research, recognition of the neglect in support for the social sciences and humanities, wider recognition of the importance of integrative-interpretive research and recognition of the link between research and training. The government has yet to respond to Dr Smith's report or indicate if it will adopt its recommendations.

While operating grants to universities have been reduced, the government has permitted large increases in tuition fees, based on the assumption that students should pay more for the cost of their education. The Progressive Conservative Party in 1992 in its policy document for education called New Directions II stated: "Tuition fees should be allowed to rise, over a four-year period, to 25% of the operating costs of universities…. As a result, tuition fees for undergraduate arts and science programs will rise only marginally, while increases for the more expensive professional programs would be larger."

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Last December, the Minister of Finance announced that universities will be permitted to deregulate professional and graduate programs. Undergraduate fees will also be allowed to increase another 20% over two years, which, compounded, means that undergraduate tuition fees will have increased by 60% between 1995 and the year 2000. This is hardly a marginal increase. Tuition fees now represent 35% of program operating costs. That is far in excess of the 25% target noted in New Directions II. At some universities, such as Nipissing, tuition fees represent a whopping 50% of operating costs. In light of the impact of government underfunding, students recognize that they are paying more and they are certainly getting less.

Government tuition policy has offered universities the classic Hobson's choice: Either universities take an extra tuition revenue and attempt to improve the academic programs and facilities or they reject the tuition increase and are left with diminishing operating grants to improve educational quality.

Tuition increases, however, have an impact on accessibility. The government has now placed universities in the untenable position of choosing between educational quality and access. We agree with the Premier's statement that the requirements of the knowledge-based economy will make access an even greater necessity for our province. Escalating tuition fees, however, is a poor public policy when it constructs barriers to access at a time when the demand for access and the demand for graduates has never been higher.

Accompanying rising tuition fees are dramatic increases in student debt loads. This year, the average debt load for a graduating student is estimated to be $25,000. The prospect of high debt loads and ever-increasing tuition fees has an impact on 1997-98 university applications. System-wide applications were down by 3.3% this academic year. Universities which traditionally draw students from outside their local catchment areas were particularly hard hit: Lakehead, for example, with a 20% decline in applications and Laurentian University with a 17% decline. When applications statistics for 1998-99 become available, we can certainly expect a similar impact.

Access to university has been threatened by a loan-based student assistance program which does not address the problem of student debt load and does not meet the needs of the students. The changes the Minister of Education and Training announced to the student assistance program last week also do very little to address the problem. Funding for the Ontario student assistance program, OSAP, will be $535 million next year. This represents a $57 million decrease in OSAP support compared to the 1996-97 figures. The demand for student assistance has increased, not declined, in this period. It is uncertain whether other forms of support, such as the Ontario student opportunity trust fund, will be able to make up the difference for effective cutbacks in OSAP funding.

The government is now placing greater responsibility on parents to contribute to their children's education costs

by increasing the level of expected family contributions and lowering the threshold on family income when determining how much OSAP will lend to a student. It should be remembered that over the past decade the average real income of the majority of Canadian families has declined. This affects their ability to financially assist family members who attend university. The inadequacies of the student assistance system have also taken their toll on students' ability to devote sufficient time to their studies. The case of students carrying a full course load and working 20 to 30 hours a week in order to pay for their education is becoming increasingly common.

The education of more students with fewer public dollars might be considered efficient by some. There are casualties in such an approach, however, including the quality of education students receive, the capacity to conduct leading-edge research and student accessibility to higher education, especially for those students coming from low-income families. Surely the government does not want this to be its enduring legacy to the Ontario people.

As the government develops public policy to position the province to meet the challenges of the 21st century, reinvestment in Ontario universities must be the cornerstone of its strategy. Education expenditures should not be considered a cost to the government but should be considered an investment in Ontario's future. Three areas for immediate reinvestment need to be addressed: funding, research and student assistance.

Universities must be confident of stable and predictable funding if they are to plan changes and adapt programs successfully to the needs of students and the economic, social and cultural needs of the population. While tuition is likely to remain a significant part of the funding environment, tuition revenue which fluctuates with enrolment cannot provide the system-wide stability inherent in adequate basic operating grants.

Block grants provide universities with the internal flexibility and the long-term planning stability to carry out their mandates and respond to local circumstances. Through adequate block funding, universities will be able to respond to the pressing need for faculty renewal, research and research infrastructure support, improved library resources and expansion of information technology, among other areas of concern.

Our recommendation is that the government restore university funding to the 1995-96 level of $1.843 billion as the first step in implementing the government's advisory panel recommendation of raising operating grants to the national average.

In terms of research, Ontario needs to develop a comprehensive provincial research policy that covers both the basic and the applied research and encompasses research in the public and private sectors, as recommended by the government's advisory panel. Such a policy would help Ontario to catch up to the research efforts of leading jurisdictions in Canada and in other developed countries.

The recommendation is that the government of Ontario develop and implement a comprehensive provincial research policy adopting the criteria outlined in its own commissioned discussion paper, called Framework for a Research Policy for Ontario.

In terms of student assistance, OCUFA believes that access to post-secondary education is a right of citizenship which must be available to all qualified students. We fear that rising tuition and other education costs in conjunction with an the unreformed student assistance system will become a disincentive for students to attend university. We also fear that some student assistance reforms, such as the income-contingent loan repayment plan, will be modelled in such a way that will worsen the debt load and the debt problem students already face through large compounded interested charges, long repayment periods, inappropriate repayment thresholds and a lack of sensitivity to the needs of students from low-income families.

Like the Council of Ontario Universities, the Canadian Federation of Students-Ontario and the Ontario Undergraduate Student Alliance, OCUFA supports the student assistance reform package endorsed by the National Round Table, whose constituent groups represent university and college administrators, students, faculty and financial aid officers at the national level. The National Round Table proposals for student reform address the needs of students before, during and after their studies.

The recommendation is that the government of Ontario adopt the student assistance reform package endorsed by the National Round Table. These reforms should encompass the needs of students before, during and after studies.

The Chair: Excuse me, Dr Flynn. You have one minute remaining.

Dr Flynn: We're almost done; 30 seconds.

The eminent 17th-century English writer, Samuel Butler, once wrote, "Learning is like a great house that requires a great charge to keep in constant repair." Due to insufficient provincial government support, Ontario's institutions of higher learning are falling into disrepair. The government now has the opportunity to reverse this trend and invest both in our great houses of learning and in our future.

The Chair: I'm afraid we do not have time for questions, but I thank you for your time this morning and for your presentation. You are going to leave us a written submission?

Dr Flynn: Absolutely. There is a copy. We also thank you very much for allowing us to give you the presentation this morning.

The Chair: Thank you kindly.

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NESBITT BURNS

The Chair: The next presenter this morning will be Nesbitt Burns, Dr Sherry Cooper. Welcome, Dr Cooper. You have 30 minutes. Please proceed.

Dr Sherry Cooper: Thank you. Momentarily you will have before you a copy of my presentation, but I'll proceed to read it into the record.

Ontario's economic and fiscal outlook: Growth prospects in Ontario continue to be stellar, and the jobless rate will fall to new lows for the cycle. Indeed, I believe that the province will post growth in excess of 4% this year, building on the 4.5% pace of 1997, despite the turmoil in Asia and the rise in short-term interest rates. This could well be the strongest pace of provincial expansion in the country, followed closely by Alberta.

As well, 1999 will be a good year, with growth still in excess of 3%. This is a reflection of the multi-year easing in monetary policy, the provincial tax cut and the shift to a more business-friendly economic environment in this province.

Prospects for growth this year and next have been shaved by the Asian crisis, the related decline in commodity prices and the general uncertainly in the US federal political environment. With only 3% of Ontario's exports going to Asia, the direct effect of the crisis here is small. The impact of very weak commodity prices is also relatively muted, particularly in comparison to the effect on British Columbia, where the forest products industry has been badly hurt.

A negative although modest impact on the United States inevitably slows Ontario's exports of manufactured goods. In addition, the price of imports from Asia will fall sharply, adding further domestic competitive pressure for import-competing goods producers like the automobile industry. Moreover, the recent downdraft in the Canadian dollar and the resultant rise in short-term interest rates reduces consumer purchasing power, at least a bit.

The effects of the Asian turmoil are already evident, and more is to come. Inco, for example, has announced dramatic cost-cutting measures in response to the softness in nickel prices, at an estimated cost of 1,000 jobs.

In my view, full marks go to the Ontario government for its pro-investment initiative. While generation-low interest rates and the continued business expansion in the United States have been important catalysts, public policy shifts in Ontario have also contributed to the rebound in economic activity. The improved competitive position of local industry and resultant boost to exports, surging capital investment, tighter real estate markets and the income-supporting impact from the tax cuts have paved the way for a broad-based economic expansion of a kind not seen in nearly a decade.

The personal income tax cuts, while delaying the move to fiscal balance, have gone a long way towards reviving consumer confidence and spending. The most recent data show that Ontario's retail sales were on track for almost 7% growth in 1997, compared with virtually no growth in 1996. The tax cuts are working.

Employment conditions have improved considerably as well. Ontario generated more than 170,000 net new jobs in 1997, double the 1996 gain, and more than 90% of these were full-time jobs. Job creation in January continued strong despite the ice storms. The unemployment rate had dipped to a seven-year low of 7.8% at year-end and ticked up in January with a surge in labour force participation. This compares to a 9.2% jobless rate one year ago.

Gauging from the 21% run-up in Help Wanted advertising in the province over the past year, an additional 120,000 jobs should be created over the next 12 months. Even with a continued pickup in labour force participation, this would likely take the unemployment rate down to 7% by year-end. I estimate the natural rate of unemployment in the province — the rate consistent with stable inflation — to be the lowest in the country, at 5.5%. We will approach this rate in coming years, with minimal risk of inflation. Indeed, the surprise in this cycle has been the continued decline in the pace of inflation, reflecting global competitive pressures, corporate restructuring and technological advances. It is truly remarkable that the consumer price index registered zero inflation over the three months to December in the face of robust economic growth, lower unemployment and a weakening exchange rate.

Job demand in the province will be most keen for highly skilled labour, both technology and knowledge skills, as well as the skilled building trades. Training, therefore, becomes a crucial issue.

Alberta, Manitoba and Saskatchewan are already at full employment, and labour shortages there have triggered wage inflation. This is a supply-side problem that, in my view, cannot be solved by traditional macroeconomic spending programs.

There is a meaningful mismatch between the skills that business requires in today's increasingly high-technology world and the skills that are available in the existing labour force. Businesses are reporting widespread job shortages in key skilled professions such as marketing, computer design, software programming, machining and engineering. According to many surveys, labour shortages have actually emerged as the number one issue for Canadian businesses. There are roughly 20,000 to 30,000 jobs waiting to be filled in the information technology sector alone.

Business leaders and educators should work together to find new ways to train workers for the highly skilled jobs that are hard to fill today. Programs along the lines of the cooperative education tax credit fostering greater cooperation between business and post-secondary educational institutions should be encouraged.

Five underpinnings to Ontario's growth:

First, interest rates will remain low. Mid- and long-term interest rates are likely to fall further, continuing to provide impetus for real estate markets, auto expenditures, business investment and other interest-sensitive expenditures.

Second, no other province is as tightly linked to the US market, absorbing 90% of Ontario's exports, and the United States shows few signs of sustained fatigue as it heads into its eighth consecutive year of economic expansion.

Third, the Canadian dollar's depreciation will enhance the competitiveness of manufactured goods, which account for 20% of provincial GDP. The boost to tourism and retail trade is already evident, as more than two million Americans embarked on one-day shopping trips to Canada in December, the highest in 16 years.

Fourth, the automotive sector will remain strong, a boon to this province as over 90% of Canadian auto and light truck production is centred here. Production of cars and trucks rose 7% in 1997 to a record 2.6 million units; 1998 will likely be a stellar year as well, judging from scheduled capacity increases. Toyota will boost Corolla production at its revamped Cambridge facility, ranked as the second-most efficient assembly operation in North America. Honda is also expanding capacity at its Alliston plant, and Chrysler is spending $1.3 billion in upgrades to gear up its Brampton facility for the next generation of LH sedans. In sum, the auto makers have pumped $15 billion into the Ontario economy in the 1990s.

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Fifth, the pro-business stance of the Ontario government will continue to play an integral role in attracting business from other jurisdictions. This is evident in the upswing in absorption rates in the office sector, taking the commercial vacancy rate for class A space in downtown Toronto to a mere 5%. This compares to a double-digit vacancy rate one year ago.

The industrial sector is strong as well, with roughly 10.5 million square feet under construction in the Toronto area alone. Not even this can keep pace with the burgeoning demand as the industrial vacancy rate continues to fall, now at an eight-year low of 7.6%. In consequence, non-residential building permits are running at a year-over-year gross pace of 125%, a precursor of more commercial development and of course more job creation.

Fiscal performance: The Ontario government deserves credit for maintaining its commitment to budgetary reform, effectively breaking the tax-and-spend grip on the fiscal landscape of the late 1980s and early 1990s. The strategy of reducing the role of government in the economy, lowering the tax and regulatory burden and giving the private sector greater leeway for growth has borne considerable fruit. The government has been successful in cutting the deficit from $10.1 billion in fiscal year 1995 to $5.2 billion this fiscal year. This is $1.4 billion lower than the budget's original projection, reflecting burgeoning revenues from a stronger-than-expected economy.

While the deficit is lower than expected, a disproportionate amount of the revenue windfall, in my view, went into spending. I'm criticizing the government and he's not even listening. Based on the economic performance, I expected the deficit to come in closer to $4.5 billion. That said, the government is likely to post a deficit no higher than $3 billion for the 1998-99 fiscal year, with a balanced budget to follow, one full year ahead of schedule. Financial markets are expecting no less.

Recommendations for the 1998 budget: The economic environment remains uncertain, particularly so because of the Asian crisis, Middle East tensions and US political difficulties. The government therefore should continue to use a contingency reserve of $650 million and a very conservative set of growth and interest rate assumptions. While we at Nesbitt Burns are bullish on the economic and interest rate front, the government should adopt a below-consensus estimate for growth and an above-consensus estimate for interest rates for budgeting purposes. This would suggest that the government maintain its current set of GDP growth forecasts of no higher than 3.5% this year and 3% for 1999. Similarly, I would add 50 basis points to the consensus estimate for interest rates, as Finance Minister Paul Martin has been doing on the federal side. These moves to ensure that budgetary forecasts are met have gone a long way towards restoring Canada's fiscal credibility.

I support the government's move to reduce the tax burden on households and small businesses. When the last leg of the 30% personal income tax cut kicks in, hopefully within the next year, the government will have done little more than offset the series of revenue-raising initiatives implemented in the first half of the decade. The relief to date has merely arrested the multi-year slide in per capita real disposable personal incomes, a decline that began in 1990. Indeed, household income in the province, on an after-tax, inflation-adjusted basis, just managed to return to its 1989 level last year.

Even with the next round of tax cuts, the top marginal income tax rates in the personal sector will remain at 50%, compared with less than 40% in the United States. The double kick to Ontarians is that the top marginal rate sets in at incomes of around $60,000 in Canada, compared with roughly $300,000 in the United States. Given that the United States is poised yet again to cut taxes further, it is imperative that Ontario further lighten the tax burden.

The wide tax differential between Canada and the United States is not only limiting our ability to compete effectively but is also prompting record numbers of high-skilled Canadians to head south of the border, the well-known brain drain. While the data are sketchy, the pattern is clear: For every US engineer who has come to Canada in the 1990s, eight Canadian engineers have emigrated to the United States. Canada loses two computer scientists to the United States for every one it attracts. The divergence is even starker for doctors, a 12-to-1 move-out ratio.

At the very least, the Ontario government should aggressively lobby Ottawa to use the upcoming federal fiscal dividend to cut taxes and reduce the national debt. Canadian taxpayers have seen the government sector siphon an ever-greater share of national income, with revenues as a share of GDP setting a new record in the past year. The tax wedge between Canada and the United States is already at unprecedented levels.

Spending cuts should not be abandoned. I applaud the government's strategy to reduce expenditures but am somewhat concerned about the additional spending that was contained in the Ministry of Finance's third quarter update. Even with revenues $2.4 billion above target and debt service charges $144 million below projection, only $1.4 billion, or barely more than half of the windfall, went to reducing the deficit. Program spending is now projected to decline 1.9% in the 1997-98 fiscal year rather than the 5.8% decline outlined in last spring's budget.

The spending cuts to date have taken government outlays down to nearly 16% of provincial GDP, compared to the 1992-93 recession high of 19.2%. Nevertheless, the

ratio remains well in excess of the 15% level prevailing when the decade began.

Clearly, the areas of education and health care are priorities as we move into the next millennium, but the appropriate method of growth in these areas should be studied carefully. Canada has very high proportional expenditures in education and health care compared to other G-7 countries, and it is not clear we are getting our money's worth. Indeed, no country spends as much on education as a share of GDP as Canada.

Ontario still has the largest deficit in the country. Its debt-to-GDP ratio was the fastest growing in the past five years, and its credit rating was downgraded three times. Although things have improved considerably, we are not out of the woods yet. Every dime the government saves from lower-than-expected interest rates or above-projection economic growth should be used for deficit reduction. Debt and the cost of servicing it remain dead-weight drags on the economy. Ontario's debt now stands at $108 billion, almost 50% higher than five years ago. It has soared eight percentage points as a percent of GDP to 32%. By the time the deficit is scheduled to disappear in 2000, only Quebec, Newfoundland and Saskatchewan will have a higher ratio of debt to GDP.

Interest charges on the debt continue to grow and are quickly approaching $10 billion, or almost 18% of revenue. The Ontario government now spends more on debt servicing than on education, and almost as much as on social services.

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The government should consider legislation that mandates a balanced budget. Several other provinces — Alberta, Quebec and Manitoba — have already taken this route. In addition, the government should consider long-term debt reduction targets. Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick and Nova Scotia have established such targets. They enhance fiscal credibility and reduce the political pressure to spend surpluses.

In conclusion, I believe we are on the right fiscal and economic track. The government has successfully broken the tax-and-spend patterns of the past decade and deserves high marks for doing so. What is left essentially is to stay the course of deficit and debt reduction, a course that will undoubtedly enhance living standards for all Ontarians by providing stable income growth and job security. Thank you.

The Chair: Thank you very much, Dr Cooper. I did say at the beginning that you had 30 minutes, and of course it was scheduled for an hour. I apologize. It leaves sufficient time for questioning, and we start with the New Democratic Party.

Mr Pouliot: Welcome. I've certainly enjoyed your presentation. I wish you well in your future endeavour for the prominence of your firm. In Bay Street parlance, you make several headlines in terms of mergers, takeovers, and so you're always in the news. We want to wish you well. The world's getting smaller. We live in a global economy as well. I know that aside from the immense impact of the tax cut, it's a big world.

My experience on the different indices is that if you have several days of the Dow Jones Industrial and the wider-held index drop, almost inevitably it will be followed by a TSE drop. On the commodities exchanges such as Vancouver and Alberta they are less vulnerable because of oil and les aurifères, and gold. But it's a world indeed. It starts in Asia every morning, doesn't it, and it goes to Europe and it goes to the emerging markets of South America, and an hour after it hits the US. We're all very familiar. Of course this government pretends, and it's quite right.

I'd like your comment vis-à-vis your brief when you highlight the positive effect of the tax cut, which gives more money to consumers for the marketplace. Yet in the latter part of your presentation you warned the committee, the government, about the ombrage, the shadow of the deficit, which is still a reality. I belong to the school — it doesn't mean I'm right — that more emphasis should be put against paying down the debt, that in my humble opinion you get better value for money.

I know you sanction both actions, on the one hand to give incentives and on the other hand to keep an eye. How do you see the future developing after the tax cut takes its full implementation — I think we're at 23% out of 30% — and the timetable for the balanced budget? What is your reaction to this, the balance between the two, the tax cut and balanced budget?

Dr Cooper: I actually believe we're in quite a virtuous cycle here. I believe that both provincially and federally in Canada, as well as federally in the United States, the surprises will continue to be on deficit elimination, more rapid deficit elimination, bigger surpluses than imagined and a more rapid repayment of debt than people expect, because I'm quite an optimist on the future of global growth and most particularly North American growth. I honestly think that because of the virtuous cycle of compound interest, which used to be the vicious cycle, because interest rates keep falling, in fact it will become easier and easier to pay down the debt.

That sounds crazy from the perspective of what I was saying five years ago, where I was very concerned about this tremendous increase in debt. But the fact is that bond yields right now in Canada are 5.7%, and I believe they're headed for 4.5% and maybe even lower, and sooner than people think. That has such a powerful impact on government interest costs that I believe economic activity will continue to grow rapidly and debt and deficit reduction are possible in the face of tax cuts. In other words, the size of government shrinks as the private sector becomes more buoyant.

I also believe that Canada has a tremendous competitive advantage in the global economy. It's not because of a weak currency; it's because we are truly a global leader in manufacturing and technology and in resources.

Mr Pouliot: I'm in full agreement in the bond debenture yield curve that what we're seeing is relatively short-term; in fact, on the catalyst, the 30-year treasury threshold, 5.45 last night to close to 5.75 for 30 years. What you're saying is we should invest a few dollars that

were generated for the tax cut. There's only a few for the average person in the short term because long term it's coming back down. That seems to be the consensus.

I don't see anything in your brief, and I meticulously looked — revenues are more chancy than spending. Spending, they say you can always say no. This government is spending more. They talk about restraint, but when it comes on the spending side, when you turn the page, it's clear they are spending more this fiscal year than any other government has ever spent in one fiscal year. This is the reality of it. But they've benefited by virtue of the global entity. People are buying cars big time. Some of them are on the waiting list at Mercedes and so on. That's the irony of it. It's going to take them a year to a year and a half to get a sport utility vehicle. People I associate with, it paints a different picture.

Would you like to issue a caution to this government about their spending habits, because again they're spending more than any other government has spent in any fiscal year?

Dr Cooper: Yes, and I thought I did in that I said my greatest concern is that the windfall gain in tax revenues did not fully show through in the deficit reduction. I'm pleased that the deficit reduction is ahead of schedule, but I am nervous that obviously it's much easier to spend money than to cut spending, and politically it is extremely difficult to do what has been done. I would like to see further progress on those lines.

Mr Pouliot: One last question. You seem to be able to predict anything and you're very well prepared and very impressive. I have one last question. Can you perhaps tell me in confidence — you do so well in your forecasting — what the Dow Jones and the Toronto indexes will be at the end of the year? Can you hazard a number? You're very bold in your predictions elsewhere.

Dr Cooper: I know. My forecast for both the Dow and the TSE is an increase of only about 8% — call it 5% to 10% from current levels — not the 30% gain we saw last year. But I was surprised by last year too.

Mr John R. Baird (Nepean): Thank you very much for your presentation this morning. You were asked as an expert witness, someone who could provide the committee with some insight into the economy. I'm a big believer that past performance dictates future results. I looked at your 1997 forecasts and they were close to bang on in so many areas that you could find. That's something worth noting, and to look at your presentation this morning in that context.

I did have a number of areas I wanted to get some thoughts from you on. I wonder if you could expand on your view: You mentioned in your report that household income was rising to levels that it hadn't seen in a number of years. Can you tell me what you think in terms of the relationship of household income between the tax cut, consumer spending and job creation, the relationship that you would draw between those four factors?

Dr Cooper: Clearly, the higher the level of disposable income for households, the greater the level of spending, and investment for that matter. That's very positive for the general macro economy and therefore for job creation.

The multiplier effect works and it works very aggressively, and we've seen it with great evidence in this province. The reason that automobile sales are at record highs for Canada itself is of course because of two things: Interest rates have fallen — automobile sales are highly interest-sensitive — and income growth is rising. The automobile industry, as an example, hires people, and this happens up and down Main Street everywhere in terms of retail operations, the financial services industry, manufacturing, the whole service sector. I believe in fact that you could describe the Ontario economy right now as booming, which is a good thing. We've had tremendous excess capacity, we've had quite a number of years of sub-par growth, and now we're reaping the benefits of very low interest rates and low tax rates.

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Mr Baird: But the tax reductions are a big part of the increase in household income and consumer spending, leading to job creation.

Dr Cooper: They're definitely a part of it. I have to say, though, that the plunge in interest rates — remember, we've been seeing in the last year, as recently as last summer, overnight and three-month treasury bill rates of just under 3%. That's incredible. We've seen a massive plunge in household interest payments, so mortgages are rolling over at interest rates two or three percentage points below the original level, which has put money in people's pockets. The good news is it's the same thing with their paycheques, that the reduced provincial tax rate has put money in people's pockets. People spend money they have and of course invest some as well, so there's buoyancy.

The other positive effect of the tax cut has been a shift in a more positive consumer sentiment. For years I was travelling across the country and you would hear Albertans or even British Columbians say positive things about the economy and the outlook, but Ontarians were extremely negative until the last two years. Now, finally, that sentiment is shifting.

Mr Baird: I have three other areas I wanted to go to quickly and get your thoughts on, because I know some of my other colleagues will have questions. You alluded in your report to the importance of a conservative set of growth and interest rate assumptions and how important that is for Ontario's reputation in the markets.

Dr Cooper: Yes, it's very important. It's a safety valve. Right now governments will not be forgiven, as we've seen in British Columbia, for underestimates of deficit reduction or surplus increases. Just as a cushion, I would caution you to be conservative in your economic and interest rate assumptions, because all of us live in a world of uncertainty. Shocks do happen and you can just imagine a number of scenarios.

One that concerns me greatly right now is the political fallout in the whole Quebec situation. If we were to see a very quick referendum, let's say in the next 12 months, I could imagine that leading to at least a temporary plunge in the Canadian dollar and maybe a surge in interest rates,

and that of course inevitably slows economic activity. Just to protect ourselves from what is inherently unpredictable fallout, I think it's prudent to use conservative assumptions.

Mr Baird: Finally, you mentioned in part of your report the issue of continuing spending cuts, expenditure reductions. You mentioned that we should see further progress. Could you expand on that and how important you think that is for the perception of the Ontario economy?

Dr Cooper: I think it's very important, because I'm quite concerned about just how inefficient the expenditures in some cases seem to be. Education is a big issue these days, and health care as well, and we all know that there are complaints as to the return we're receiving on the health care dollar and on the education expenditure. There are many measurements of this, be it the long lines in emergency rooms or the lack of important diagnostic facilities within the province to, on the education side, the relative underperformance of our children in standardized testing.

When it comes right down to it, in the whole measure of preparing people for jobs, those people who offer the jobs know more about what they want to see in employees than professors in an ivory tower. The co-op programs are so successful and they truly are inexpensive. When we see students from Guelph or Waterloo etc, many of them come to us on a co-op program and ultimately work for us full time because they see what they need to be the kind of employees we're working for. It's very powerful.

I urge you to not succumb to the pressures that are obviously so evident in the system to just keep throwing money at these issues, but instead to use the markets. The markets, the capitalist system, does truly work.

Mr Wayne Wettlaufer (Kitchener): Dr Cooper, thank you very much for your presentation. I couldn't have said it better myself.

I have a couple of quick questions. Two years ago we heard from an expert witness — I don't remember who it was — that the reduction in spending on the part of the Ontario government could take some of the stress out of the interest rates by as much as, I believe, 50 basis points, if I remember correctly, which in today's environment equates to about $500 million a year. Would that still hold true today?

Dr Cooper: Today what has happened is that governments everywhere, US and Canadian, are doing just that, with rare exceptions, so the positive effect of that is being played through, and as I said earlier, we aren't finished yet. I believe interest rates are going to fall further. Indeed, there's a shortage of high-yield, high-quality debt in the world. Who would have believed it? The Canadian bond crop has failed. Our provincial bond trader has nothing to do, and the issues when you come to market are swallowed up instantly. There is more demand than there is supply for bonds, and that means ultimately higher bond prices, lower bond yields.

If you were to reverse course, spend like crazy and raise the deficit, interest rates in this province would rise sharply. It's hypothetical, but similarly, on the reverse, I believe the benefits on the fiscal tightening side have not yet been fully felt. Real interest rates in this country are still very high, and that's why I believe we're headed for 4% to 4.5% bond deals.

Mr Wettlaufer: I'd like to talk about your third paragraph on page 4, relating to a supply-side problem vis-à-vis employment. I've been very critical of our university system for many years. I feel that our universities are in competition with one another and the faculties are in competition with one another inside the universities. It's learning for learning's sake; it's a philosophy they've had for many years. I think it was just this weekend that Nortel announced they're going to require 12,000 graduates in the next five years and there are only going to be 4,000 available in the country. Do you see that the universities are making any strides towards progressing in an attitude towards directing their graduates to those areas in which they might be able to find jobs, as opposed to learning for learning's sake?

Dr Cooper: I think it's very limited. I don't have direct experience in many fields, and in the fields I do have direct experience in, which would be economics and finance and some of the technology-oriented areas like computer science, I think it's very limited. I have nothing against a liberal arts education — in fact I had one as an undergraduate and I think it's very valuable — but at the end of the day we all have to support ourselves and it is useful for society for people to be trained in areas where there is some demand.

There is such tremendous demand. We have job openings at Nesbitt Burns that we can't fill. We can't keep people in anything that's technology oriented. We actually are giving bonuses to employees who recommend successful job candidates in those areas. The whole technology-oriented finance marketplace, everything to do with math as applied to financial markets, is in tremendous demand, and that's just my little corner of the world.

I do not perceive that the universities are working hard to provide people with the kinds of skills we're looking for. In fact, many don't even discover that there is that demand in the marketplace until long after they've come out of university and then have to find some training themselves. The good news is that the markets work. The salaries in those fields are going up and it's attracting people.

Mr Wettlaufer: Right. So when you hear criticisms like we heard from the previous presenters about the debt load that graduates are carrying — if they were being trained in the proper fields, in the high-salaried jobs, that debt load would mean very little.

Dr Cooper: It would mean very little. That's right.

Mr Doug Galt (Northumberland): Thank you very much. I certainly enjoyed your presentation, probably the most enjoyable presentation I've ever had here at Queen's Park. I even handled your criticism and enjoyed Mr Pouliot's comment about increasing spending, which he was a bit critical of. In the past we've always heard the criticisms about the cuts and concerns in that general area.

Anyway, you were listening to some of the preceding presentation from the faculties, saying we were one of the wealthiest provinces. I have to question that when we have a $108-billion debt and still have the biggest deficit on a per capita basis in Canada. The end result is for the students either to end up with a provincial and a federal debt, which they have to pay through taxes, or to end up with a certain amount of university debt. It's a choice. In that presentation we didn't get a chance to question, but they didn't have any alternatives other than they wanted more money. If you were an MPP, how would you respond to that presentation, having sat there and listened to it?

Dr Cooper: I did hear only the end of it.

Mr Galt: The end of it was the same as the beginning. It was consistent.

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Dr Cooper: I strongly disagree with it. We've talked about this at great length, because I've done an analysis province by province of what the lowest possible unemployment rate would be, consistent with price stability, and compared it with the United States. The lowest natural rate of unemployment in any province in the country is right here in Ontario at 5.5%, but in the United States it's 3%, just as an example. In the United States, there are areas of the country where unemployment is very low and where price stability is evident, or parts of the country like Massachusetts where you have very well educated people, tremendous labour mobility and the willingness of people to go where the jobs are. Jobs are locating in areas where there are people who can do those jobs, as we said with Northern Telecom. The markets work. It doesn't take government money. There's no question that Americans come out of university with far higher debt levels as a result of the extraordinary cost of tuition in that country.

The problem here, in my view, is that everyone for so long has expected government handouts. The whole mentality of that, that a student should believe that somebody should pay them to go to school and then somehow they just carry on in the job market and then the government takes care of them from cradle to grave — those kids I see coming out of some of these programs are just driven to succeed, regardless of whether they begin with some debt or don't begin with debt, and those are the ones who obviously will do extremely well.

Mr Galt: We're periodically criticized, "You've come in with your program of cuts, to cut taxes and cut spending, but what's really out there is the international economic boom and that's what's saving Ontario." Do you have any feeling, in terms of what's going on in Ontario, the extra revenue coming in and all that kind of thing, about how much is due to our policies as a provincial government versus international? How big an effect are we really having in Ontario or how much would be there if we had gone the old ways and let the international market help us?

Dr Cooper: It's hugely Ontario.

Mr Galt: Is it 70%?

Dr Cooper: Easily. First, the US was booming during the tenure of the last government in Ontario. When the NDP government was in power in Ontario the US economy was booming and Ontario was still massively underperforming. Yes, of course, we had a delayed effect of the decline in interest rates, but the only reason the Canadian interest rates could fall below the US was that the markets believed that indeed we meant it in terms of deficit reduction, and we did; we proved it.

The global economy isn't that strong, you know. Canada last year had the number one growth rate of the G-7, and I believe in 1998 we're going to have the strongest growth in the G-7.

Mr Galt: And Ontario has created that for Canada?

Dr Cooper: Ontario isn't the only province that's growing, but as I said, in 1998 I believe Ontario will be the strongest, very closely followed by Alberta. Last year Alberta was the strongest, but Ontario was second and Manitoba was quite strong as well.

Mr Monte Kwinter (Wilson Heights): Dr Cooper, I want to congratulate you on the format of your presentation. It's very effective, very easy to read. The graphs are great. I particularly like the graph on page 6 where you show that in 1990 the province actually had a small surplus. We have been telling that to our colleagues on the other side for two years and they haven't believed it. It's nice to see an independent person, the virtues of whose presentation the government side was just extolling, confirming that in fact the government I represented at the time brought in a surplus in 1990. I think it's important that we see that.

The question I would like to ask you is this. You refer in your presentation to the cycle. With economists, it's on the one hand this and on the other hand that. We had Mr McCracken of Informetrica here yesterday. His thesis is that the tide is going out. Yours seems to be that the tide is still coming in and rising quite rapidly. He has access to the same numbers as you do, yet there is this dichotomy. This is something that has always puzzled me. Economists keep coming here. You get two economists and you get three opinions. Could you comment on that? Could you just tell me what your projection is, how long you think this cycle will continue?

Dr Cooper: I believe that as we head into the next millennium, literally the year 2000, there is some risk, because I, like everyone else, am very uncertain about what the year 2000 problem might mean, at least in the early part of the year. I am convinced that there could be sufficient disruption that at least temporarily we could see a fairly marked slowdown, but that's an exogenous factor that indeed would be temporary.

I'm very optimistic about a long-term sustained pace of economic growth. We're already in the eighth year of economic expansion in the United States as of April 1. This is a very long cycle. It's the third-longest expansion in the post-war period in the US, and I see no end in sight, because I, unlike Mr McCracken, believe we are in a new era of sustained low inflation. I see no inflation pressure in the pipeline.

The reason that economists differ so much with all of us having the same data is that we have different theor-

etical constructs in our mind as to how the economy works. In the old world, when unemployment rates fell, inflation rose, almost inevitably, and when inflation rose the central bank slammed on the brakes, raising interest rates, and economic activity slowed and the economies went into recession. What's different this time, as Alan Greenspan at the federal reserve continues to comment, is that even though the unemployment has fallen and we can say without question that the US is at full employment, we haven't seen inflation; in fact, inflation is falling. I believe the reason is because of tremendous global competitive pressure and, as a result of that, massive business restructuring. Who among us feels job security? Certainly not me. My business is about to restructure.

Interjection: Certainly not us.

Dr Cooper: No one does. No one feels job security any longer. No one has tenure, if you know what I mean. All of us have to produce that much more to become that much more valuable to our businesses. And which business has pricing power? Who can raise prices? No one. As a result, I believe we can see continued growth, with low inflation. Ontario has this tremendous advantage that we aren't at full employment yet, we still have excess capacity, we still have the ability to grow. Not only that, but we have a highly educated population and globally we have access to the world's fastest-growing marketplace, our own and the United States. So I am very optimistic.

I also believe the turmoil that we see in Asia today will continue to enhance the attractiveness of North American markets. We're stable, we're safe, we're deep, we're liquid, and we're very inexpensive. In fact, my one concern is that the companies of Canada are dirt cheap for everybody.

Mr Kwinter: Before I turn this over to my colleague, I just want to give you a feeling of security. Next Monday my son is joining your firm as vice-president of information technology and will solve your millennium problem.

Dr Cooper: Perfect.

Mr Phillips: Just to follow up on what you think reasonable targets are — and I agree with my colleague Mr Kwinter; I found your charts useful. To go through them, on page 3 there is the employment situation. I see that back in 1988-89 the unemployment rate was around 5%, I gather, in the province. I'm just looking for what you think might be reasonable targets. Then on page 6 there is the surplus in 1990. Then, page 8, the spending-to-GDP in 1989-90 was around 15% and has been up ever since. The debt-to-GDP, on page 9, was around 14%; it's up to about 30% right now. The debt servicing costs, on page 10, were about 7% of revenue in 1989, and they're at 17% or 18%.

Are those achievements back in 1989 — the unemployment rate around 5%, the debt-to-GDP under 15%, the spending-to-GDP under 15% — targets that you think the current government should try to get back to, to try and achieve those kinds of performances?

Dr Cooper: I do, and I actually think it's realistic, not for the next year, but I believe the Ontario unemployment rate will be about 5.5% as we go into the year 2000.

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Mr Phillips: So you think they should try and get back to the achievements under the old Liberal government in these targets here: the unemployment rate, the debt —

Dr Cooper: The debt, the interest payments, yes.

Mr Phillips: That would be quite an achievement for them.

On the job front, you're predicting job growth considerably lower than the government is for 1998, at 120,000 jobs. They are predicting more like 170,000 jobs. Is there a reason why you would be lower on job projections than the government?

Dr Cooper: It's obviously all predicated on overall growth assumptions. If I'm wrong, I'll bet you my numbers are too small. In other words, these are conservative numbers. I certainly don't think it's impossible that we'll see stronger job growth in the province. The momentum in the job market is huge. There are literally labour shortages in many sectors.

Mr Phillips: Job growth last year was about 100,000 jobs and the economy grew at 4.4%. If the momentum is huge, why have we not yet seen it on the job front?

Dr Cooper: We have seen it on the job front. Again, the unemployment rate has fallen quite substantially.

Mr Phillips: The government presented numbers to us last week showing a growth of 101,000 jobs in 1997.

Mr Baird: It was 234,000.

Mr Phillips: No, the average for 1997 was 101,000 jobs.

Dr Cooper: I thought it was 170,000 jobs in 1997 in the province.

Mr Phillips: No, you'll find in their economic numbers that 101,000 was the average job growth for 1997.

Dr Cooper: Average job growth, okay. But for the year as a whole from beginning to end —

Mr Phillips: Right, the year as a whole, year over year. You shake your heads, but that's what the government numbers show.

Mr David Rosenberg: Are you talking about December to December, a December-to-December change?

Mr Phillips: The way the Ministry of Finance publishes the number, they say that average job growth in 1997 was 101,000 jobs.

Mr Rosenberg: It might be an average of 1997 versus 1996.

Mr Phillips: Yes, that's right.

Mr Rosenberg: We look at it on a year-end basis.

Mr Phillips: Is that what your 120,000 is, then, year-end to year-end?

Dr Cooper: It's 170,000.

Mr Phillips: No, your 120,000 for 1998.

Dr Cooper: That's our forecast for this year.

Mr Phillips: But that is your forecast, is it?

Dr Cooper: Yes. On page 3 we state that Ontario generated "more than 170,000 net new jobs in 1997 — double the 1996 gain...."

Mr Phillips: And you're predicting 120,000 jobs in 1998.

Dr Cooper: Right.

Mr Phillips: Okay. Are there any others here where you think you may be low on your predictions?

Dr Cooper: Obviously, there's uncertainty in all of these. Again, I am optimistic about the future. I think there are risks. I mentioned one in terms of the potential Quebec situation that could lead to higher interest rates temporarily.

Mr Phillips: Can you help me with the "Income Growth has Stagnated" on page 7? Real disposable income actually looks like it's down slightly over the last seven years. As I read your chart, it continues on a flat line. Is there a reason for that?

Dr Cooper: There are a number of things. One, there has been very high unemployment, and that obviously means that job creation and income growth had stagnated. The other factor here is tax rates. This is real disposable income. It's after-tax income.

Mr Phillips: The tax cuts came in in 1996 but you're still showing a flat rate. Is there a reason for that?

Dr Cooper: What we've said is that by the end of 1997 we began to see a return to the levels not seen since 1989. It's helping, but it takes time for it to begin to show through. The boost in the job market will help as well.

Mr Phillips: So you're predicting a substantial increase in the income-growth area?

Dr Cooper: I'm predicting a further continued growth in personal disposable income of about 3% a year.

Mr Phillips: The chart here doesn't show that. Have I got the wrong chart?

Dr Cooper: This doesn't have a forecast on it; this is just history.

Mr Phillips: Okay. In terms of your priorities for us, you're suggesting further tax cuts for the upper-income sector, I gather. Even with the next round of tax cuts, you're saying further tax cuts, and the example you use is for those between $60,000 and $300,000.

Dr Cooper: No. I was just using that as a comparison with the United States. My point was that the top marginal tax rate in this province, at 50%, is still 10 full percentage points higher than in the US, and in the US the top marginal tax rate of 40% doesn't even kick in until you're at an income level of $300,000.

Mr Phillips: Is this where you think we should be putting our priorities, on further tax cuts?

Dr Cooper: No, I'm not saying that. All I'm saying is, don't be surprised that brilliant young graduates from Waterloo's computer science program go to work at Microsoft or other places in the United States, because the tremendous tax differential is a huge incentive for them to go. Another huge incentive has been the massive decline in the Canadian dollar. You truly do take a hit in terms of your overall living standard staying here versus leaving.

Mr Phillips: In light of that, it's kind of extraordinary that over the last 30 years we've been able to develop the auto industry here in Ontario.

Dr Cooper: The whole world is developing those industries. We're lagging behind the rest of the world, believe me, and the United States especially.

Mr Phillips: In the auto sector?

Dr Cooper: Absolutely. Everyone knows it.

Mr Phillips: I thought we were doing very well in the auto sector.

Dr Cooper: Everybody is developing technology, obviously, but there's no question that with the US as such an enormous magnet for Canadian talent — let's just look at new graduates as an example — we have to be concerned about the relative opportunities in those two countries. Say a technology company, Newbridge or Corel in Canada, makes a job offer to a brilliant young graduate. We all know that when Microsoft comes in, they cherry-pick the top of the class at Waterloo. Why is it that they're successful? Because they pay in US dollars, and Canadian graduates are concerned that the Canadian dollar, now at 69 cents, could be headed even lower as it continues to hit new record lows; and they pay based on the US tax system, and the US tax system allows you to keep more of your after-tax dollar.

The Chair: Thank you, Dr Cooper. That concludes the 15 minutes we had for the Liberal Party. Both the government and the Liberal Party had 15 minutes because Mr Pouliot did not use all his time. He now requests one minute, with their approval.

Mr Pouliot: I noted in your last rebuttal that you mentioned that Canadian and North American companies were cheap. I took that to be an invitation for investors. I ask my question to your world of expertise, by way of representation of Ontario small investors. The price-earning ratio of Canadian companies is quite high, almost historically high, and the S&P dividend yield is almost historically low. With some influx of money, would that not favour the bond market?

Dr Cooper: I do believe the bond market will out-perform the stock market this year. But in the point I was raising earlier about our companies being cheap, I wasn't really just referring to the price-earnings ratios; I was referring to the value of the Canadian dollar. We're having a bargain-basement sale in our companies. Just as an example, American investors use US dollars to buy Canadian companies. The other point is that P-E ratios are high here, but in comparison to the US they're actually relatively low, in some industry sectors.

The Chair: I apologize, Dr Cooper. When he asked for a minute, I didn't know he was looking for personal advice. Feel free to send him a bill. Thank you very much for your presentation and your time this morning.

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ONTARIO RESTAURANT ASSOCIATION

The Chair: Our next presenter is the Ontario Restaurant Association. Ladies and gentlemen, thank you for attending. Welcome.

Mr Marvin Greenberg: Good morning. My name is Marvin Greenberg. I am the acting president of the Ontario Restaurant Association. I'm joined here today by Ken Baxter, chairman of the ORA, and Sherry MacLauchlan of McDonald's Restaurants of Canada, also

an ORA director. We are pleased to be part of the 1998 pre-budget consultations for the development of the provincial budget and to be provided with an opportunity to discuss issues of concern to the foodservice industry.

The ORA's submission focuses on five key areas of importance to Ontario's restaurants and foodservice industry in the areas of Ontario's beverage alcohol system and the taxation of restaurant food. However, before Ken and Sherry discuss the ORA's submission, I would like briefly to provide you with some data on Ontario's foodservice industry.

We do not believe that anyone can dispute the importance of the industry to the provincial economy. There are over 20,000 units providing over 250,000 direct jobs and 150,000 indirect jobs. The industry is a major employer of youth, women and entry-level and under-skilled workers, and it is an industry in which over 30% of all members of Ontario's workforce obtained early job training. However, Ontario's restaurant and foodservice sector is continuing to experience difficulty, with record numbers of restaurant closures and continuing weak sales growth.

In 1996 the rate of growth of Ontario's foodservice industry was at 2.6%, the second-lowest within Canada and far below the rate of growth experienced across Canada, which averaged 4.6%. In 1996 there were 515 restaurants and foodservice bankruptcies. This exceeded the previous record level of 505 bankruptcies in 1992. During the first six months of 1997, restaurant and foodservice bankruptcies remained high, at 243, exceeding the 237 bankruptcies experienced during the same period in 1996. For the second quarter of 1997, figures for sales growth in Ontario's restaurant industry were the lowest of all provinces. Why is this occurring? There are several reasons.

The introduction of the GST in 1991 has been devastating to the foodservice industry, resulting in over 20,000 job losses. The GST has had a direct and negative impact on the food industry's share of the food dollar, as it has dropped to 38.5% from a high 42% in 1989, much to the benefit of the grocery industry. According to Statistics Canada, between 1992 and 1996 spending on restaurant meals fell by 6.5% while spending on groceries increased by 5%.

The tax inequities between the ready-to-eat meals sold in grocery stores and ready-to-eat meals sold in foodservice establishments continue to exist despite repeated concerns expressed by the foodservice industry and repeated calls for governments to address and remedy this situation. In order to address the current difficulties being experienced by Ontario's foodservice industry, the ORA recommends government action in the areas of alcohol distribution and taxation and on the taxation of restaurant food.

The ORA firmly believes that government action on the four issues addressed in our submission will greatly assist in restoring stability and growth in Ontario's foodservice sector.

I will now ask Ken to address issues of concern to the industry regarding Ontario's beverage alcohol system.

Mr Ken Baxter: I would like to start off by thanking the government for its announcement last week regarding the use of credit cards for licensee purchases. The industry is very pleased with this.

With this in mind, the first issue I'd like to focus on is in regard to Brewers' Retail and the current inability of licensees to purchase BRI products on credit cards. As previously stated, last week the government announced that effective March 1, 1998, licensees would be permitted to purchase beverage alcohol from LCBO stores through the use of credit cards, a privilege previously allotted only to home consumers. Restaurant and bar operators collectively purchase over $500 million of beer annually from Brewers' Retail Inc. However, the BRI does not allow licensees the use of credit cards or any other form of credit.

The BRI is regulated and empowered to sell beer on behalf of the LCBO. As a regulated entity, the BRI should be required to provide reasonable purchase and sales options to licensees. The ORA firmly believes that as such, the BRI should be acting in the best interests of its consumers and should be made to meet the needs of its consumers, including the extension of the use of credit cards for beer purchases made by licensees. Since the government of Ontario is the regulator of the BRI, this should include the authority to require the BRI to accept credit cards for beer purchases made by licensees. The ORA firmly believes that the government of Ontario should act within its authority and require the BRI, which it regulates, to extend the use of credit card purchases to licensees.

The next area I'd like to discuss is the sale of beer by the LCBO to licensees. Currently, the Liquor Control Act authorizes the establishment of Brewers' Retail to operate stores for the sale of beer to the public. The act, however, does not exclude the Liquor Control Board of Ontario from selling beer or competing with the BRI, as is currently the practice. This exclusionary practice is done only by ministry and LCBO administrative policy. As a result of the LCBO policy, licensees are required to purchase their wine and spirits from the LCBO and their beer from the BRI even though the LCBO sells beer to home consumers. This practice creates an unnecessary regulatory burden for licensees, such as two separate and costly deliveries to a bar or restaurant. As well, by granting an exclusive monopoly to indirectly foreign-owned BRI, the lack of competition greatly reduces the level of quality of service received by the licensee consumer.

In other regulatory industries, such as the telecommunications industry, consumers have benefited from competition as prices have become more competitive and higher standards of service are offered to its consumers. By creating two purchase options for beer, the resulting competition will improve the overall quality of service received by the licensee community. For small hospitality owners, the ease of dealing with only one beverage alcohol supplier will reduce the unnecessary burden of two separate ordering systems and delivery organizations. By

directing the LCBO to sell beer to the licensee community, the LCBO can compete for the lucrative half-a-billion-dollar licensee beer business.

The ORA estimates that this policy change would improve LCBO efficiencies and could represent between $25 million and $50 million in new LCBO operating profits which would flow directly to the government of Ontario.

Thus, the ORA recommends that the government of Ontario should amend the Liquor Licence Act to allow licensees in Ontario, at their option, to purchase their beer products from the LCBO.

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The next issue I'd like to discuss is the elimination of the special licensee fee known as gallonage tax. This is a very critical issue to the hospitality industry.

Currently, licensees pay two separate and distinct licensing fees. One licensee fee is a fixed annual licensing fee and the other is a variable volume- or price-based fee applied to licensee purchases of beer, wine and spirits. This results in two fees for every licensed establishment.

It is the view of the ORA that the volume- or price-based variable fee paid by licensees is, in practice and design, an indirect tax imposed upon customers of restaurants and bars. It is also the view of the ORA that this fee, as it acts as an indirect tax, is outside the scope of provincial constitutional powers and thus must be eliminated.

According to subsection 101(1) of regulation 719 of the Liquor Licence Act, applicants for liquor sales licences are required to pay application fees of $685 or $815, depending on whether public notice is required under subsection 7(1) of the act. In addition, subsection 101(2) requires applicants, where public notice is required, to pay an advertising fee equal to the actual cost of the advertisement placed by the Liquor Control Board of Ontario, as required under subsection 7(1)of the act.

Subsection 101(3) requires applicants to pay $240 upon the issuance of a liquor licence, while subsection 101(4), required by Ontario regulation 773/94, imposes a renewal fee of $300.

In addition to these licensing fees, subsection 103(1) requires licensees to pay an additional licensing fee of (a) $2.64 per hectolitre of beer purchased for sale or for consumption under the licence; and (b) an amount equal to 12% of the purchase price of wine and spirits, including the price of containers purchased for sale or consumption under the licence.

These volume- or price-based fees generate approximately $35 million annually for the provincial treasury. It is these volume- or price-based fees which are indirect taxes on consumers of LCBO-licensed restaurants and bars.

It is interesting to note that the indirect tax as well as the ancillary regulatory argument outlined below are the same arguments recently used by the government of Ontario to justify why in Bill 26, the omnibus legislation, municipal governments could not impose local sales taxes through a regulatory licensing scheme. The government of Ontario said these types of indirect taxes or regulatory schemes were not permissible under the Constitution.

Under the Constitution Act of 1867, the provincial governments are limited to imposing direct taxes and are excluded from imposing indirect taxes.

From past court rulings and the application of the John Stuart Mill test and the general tendency test, both used by the Supreme Court of Canada, it is clear that the volume- or price-based licensing fee is indeed an indirect tax on consumers and therefore exceeds provincial powers.

The courts have, however, held that provinces might impose indirect levies under subsections 92(9), (13) and (16) of the Constitution Act, 1867. However, the courts have held that these levies must be "ancillary or adhesive" to the valid provincial regulatory scheme and that the fees raised from indirect levies are to be used to administer regulatory schemes and are limited in amount in accordance with this purpose.

It is commonly accepted that the LCBO is a valid regulatory scheme. However, these fees collected by the LLBO and directly remitted to the provincial treasury far exceed the cost of administrating the regulatory scheme.

The ORA strongly believes that the licensing fees collected should be on a cost recovery basis only. Under the current system, the fees collected by the LLBO greatly exceed the administrative costs. Therefore, the LLBO is in effect collecting indirect taxes.

In addition, consumers are unaware of the taxes they are paying, as the taxes are not visible to them. This furthers the point that indirect taxes are being collected by the LLBO.

The LLBO collects over $55 million in annual licensing fees, while its total operating cost is less than $8.5 million. This means that the LLBO regulatory scheme is in fact generating over $46 million annually through the imposition of indirect taxes on Ontario's consumers.

Thus the ORA recommends that the government of Ontario should eliminate the volume- or price-based licensing fee levied on licensees, which functions as an indirect tax on consumers.

The last area under alcohol that I'd like to discuss is the alternatives to liquor licence suspensions by the Liquor Control Board of Ontario.

Under the Liquor Licence Act, sections 13 to 26, a licensee, if charged with an infraction of their liquor licence, can either receive no penalty or can be given a licence suspension. There is currently no provision in the act for the Liquor Licence Board of Ontario to impose fines or other remedial measures on the holder of a liquor licence. The LLBO is only empowered to suspend a licence permanently or temporarily.

The damage a licence suspension has on a licensee can be very severe, to a point where lost revenues during the licence suspension can put a licensee out of business. In addition in many cases, and especially cases which involve bars or taverns where the majority of revenue is derived from the sale of beverage alcohol, a licence suspension results in revenue losses that necessitate job layoffs and job losses for wait staff. The impact on

employees in food and beverage establishments has been, and can be, very harsh.

In an industry that employs a large number of students, women and immigrants, a liquor licence suspension can result in job layoffs and job losses to people who can least afford to lose their jobs.

The ORA does not believe there is enough latitude available to the LCBO when dispensing a disciplinary penalty, as currently it can only suspend a licence or do nothing.

A more practical alternative, especially in cases of first-time offences and for operators who have excellent business records, would be an imposition of a fine which would levy a penalty yet protect the jobs of employees. While the ORA does not condone liquor licence infractions, we believe that many infractions warrant a penalty, but not as severe as a licence suspension. It is important that the penalty fits the crime. Today, that is not the case at the LLBO because many infractions are overpenalized with a suspension or underpenalized with no penalty.

By amending the Liquor Licence Act to include fines or remedial measures, the government will empower the LLBO to use its discretion when dealing with infractions under the act and to determine a suitable punishment for infractions which does not necessitate a licence suspension. By permitting fines, more flexibility is created for the hospitality industry. This will further help to protect the jobs of the hospitality workers in the food and beverage industry.

The ORA recommends that the government of Ontario should require the Liquor Licence Board of Ontario to develop alternatives to liquor licence suspensions in the form of fines or remedial measures, and to pass legislation that would amend the Liquor Licence Act to reflect these changes.

Sherry will now discuss the issues of tax exemptions on restaurant meals.

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Ms Sherry MacLauchlan: As you're aware, all foodservice meals over $4 are subject to the provincial sales tax. The existing PST threshold of $4 has not increased since it was established in 1987 and has lost significant value in real terms due to inflation. The $4 threshold is also not reflective of current socioeconomic realities, where in most instances eating away from home is no longer considered to be a luxury. Many segments of the population rely regularly on eating outside of the home. Students and working parents and their children eat at quick-service restaurants on a regular basis to accommodate the demands of their busy schedules.

Restaurant owners know that their customers are extremely sensitive to the provincial sales tax. This is apparent in their spending behaviour, where groups or families regularly make separate transactions simply to avoid paying the tax. In addition, the $4 threshold has become a critical pricing point for quick-service restaurants, because customers resist spending much beyond this amount. As a result, the threshold has become a marker which restaurants cannot overstep without seeing a significant decline in consumer demand. This, combined with the fact that operating costs have continued to rise while the threshold has remained fixed over the last 10 years, has resulted in a substantial erosion of margins for restaurant owners, both in mom-and-pop operations and national chain outlets.

In the highly competitive quick-service restaurant sector, for meals priced under the $4 threshold costs are almost at the point of exceeding revenues. These diminishing margins obviously have a detrimental impact on the viability of a restaurant and the owner's ability to reinvest and grow their business. This has consequences in terms of sustaining existing employment levels as well as in creating new job opportunities in the business. At its current level, the threshold has essentially become a barrier to growth for this industry.

An appropriately adjusted PST threshold will not only benefit consumers, it will restore reasonable margins for the foodservice establishments and thereby provide the capacity for business growth and additional job opportunities. The ORA therefore recommends that the government of Ontario increase the amount of the PST basic threshold from $4 to $6.

In conclusion, the foodservice industry strongly believes that immediate action is required in order to remedy the inconsistencies in Ontario's beverage alcohol system and to remove the indirect taxation of beverage alcohol. Further, the taxation of restaurant food requires a complete and thorough investigation so that the unfairness of the current system can be remedied and that Ontario's foodservice industry can remain a strong and important contributor to Ontario's economy, especially in the area of job creation.

We urge this committee to adopt the recommendations in this report. Thank you. We'd be happy to answer any questions the committee may have at this time.

The Chair: Thank you very much. We have approximately two minutes per caucus, starting with the government caucus.

Mr Ted Arnott (Wellington): Thank you very much for your recommendations. They're very straightforward and specific and I think you've done a terrific job over the years representing the members. We still do not see in the restaurant business the kind of growth I suppose we've experienced in some of the other sectors of the economy, and certainly the government needs to do what it can to help.

Thank you for acknowledging the government's announcement to permit the purchase of beverage alcohol through the use of credit cards. I agree with you. I don't know why the Brewers Retail would be reluctant to proceed in that way and I think the government should perhaps check that out and encourage them to do so. It would probably require a regulatory change. Do you know?

Mr Baxter: I think it's a policy issue.

Mr Arnott: It's a policy issue.

Mr Baxter: The government has the ability to make a regulatory change to require it.

Mr Arnott: Do you have any estimate of the cost to the provincial treasury of the recommendation of increasing the PST exemption to $6 per meal?

Ms MacLauchlan: We don't at this time. We intend to undertake an analysis of what the impact may be. We at this point feel, though, that any decline or decrease in revenues would be more than offset by business growth and new job opportunities in our sector.

Mr Arnott: We believe in that philosophy, sure, and I think you've got a very strong argument if it hasn't been changed since 1987.

Ms MacLauchlan: We've checked with Stats Canada. That $4 figure is now at $5.28; and based on, say, a moderate rate of inflation over the next number of years of even 2%, raising it to $6 at this time would give the industry another three to five years before inflation would overtake the marker again.

Mr Arnott: Thank you very much once again.

The Chair: Moving to Mr Kwinter, please.

Mr Kwinter: Mr Chairman, I just want to refer to this credit card issue. To a former Minister of Consumer and Commercial Relations, you have to understand, historically this is called the Liquor Control Board of Ontario. Its purpose is to control the sale of liquor, and the feeling has always been, from a public policy point of view, that you can't have people going into debt buying alcoholic beverages. So that's why you'd pay cash and you couldn't charge it. Obviously, that has changed in the same way that public mores about gambling have changed. I agree that times have changed and it's a different situation. It makes no sense if you've got the ability to buy your liquor with a credit card you can't buy the beer. Just so you know, it isn't Brewers Retail that sets that policy; it's really government policy. They're the ones who have to change it.

Mr Phillips: Just a question, and I agree it's a good presentation and well thought out: Some of the things seem so logical that you wonder why. In the past, the restaurant association has talked to us about video lottery terminals as a significant issue for them. This year you don't mention that. Has the association got a view on video lottery terminals?

Mr Baxter: Yes, we do. We prioritized our issues this year and video lottery terminals were brought up, but the time constraints wouldn't allow us to make a presentation on that. However, we believe that for our industry to be competitive out there and with the introduction of casinos and charity casinos throughout the province, we would like to have video lottery terminals available to licensees or the hospitality industry on a controlled basis to provide us with a competitive edge with the gaming casinos that are popping up all over. We have some sensitivity to that. We believe that the casinos are directly, at times, competitors in our industry and that we would like the opportunity to compete at the same level as they do, or some sort of level.

The Chair: I'll have to interrupt you there before you get into the grey machines, which your members already have. I know that's where you were heading.

Mr Pouliot: I too echo the sentiment: an excellent presentation. Governments of all stripes are a little — not that they're reluctant, I suppose — slow to react. They let the marketplace set the tone. It's accepted by everyone that nowadays credit cards are common currency. That's the way you do business. So I would hope that the government will recognize that. I don't think there's any valid argument not to use credit cards, because that's the way business operates.

On the $4, I distinctly heard a member on the government side, Mr Ted Arnott MPP, saying he was sympathetic to the issue you've raised of raising the threshold on the PST from $4 to $6. I would go a bit further in order to encourage your industry to create more jobs. Why should it be the first $6 paid on meals? Get away from the argument of the $5.99 syndrome. On the consumer's side it's quite costly. You go to a restaurant nowadays, and if you're a person of moderate means you pay 7% —

Interjections.

Mr Pouliot: Poverty is not comical. You pay 7%, then you pay an additional 8%, and then with waiters and the service trade you pay another 15%, I suppose. So that's 30%, and if you wish to have a glass of wine it's a 100% markup. You would know better. Mostly on spirits it's quite high. So you can buy, in some cases, almost a week of groceries. I recall that you used to have to make a reservation, and now from Thursday till Sunday you don't have to make a reservation in most instances.

I want to wish you well. I'm in full sympathy and I think the threshold should be raised; I also think it should be raised on the first $6. You've been very frugal in your argument. You're satisfied with little, and on the matter of the credit card, I don't have that key. We're no longer the government, they are, but I don't suppose it changes a great deal. I'm sure they would look at this with a good deal of favour and do it quickly through regulation.

The Chair: You have a minute if you want to make a comment. If not, I thank you very much for your presentation and I echo Mr Pouliot's comment. I think your requests are most reasonable and I commend you. You're one of the few who have extracted sympathy from all three parties. I hope that augurs well with our deliberations. Thank you for your time and for your presentation. We'll recess now until 2 o'clock.

The committee recessed from 1200 to 1402.

ONTARIO NURSES' ASSOCIATION

The Chair: Our first presenter this afternoon is the Ontario Nurses' Association. Come forward if you would, please. Welcome. Please introduce yourselves and proceed.

Ms Enid Mitchell: Good afternoon. My name is Enid Mitchell, and I'm the vice-president of the Ontario Nurses' Association. Accompanying me today is Seppo Nousiainen, who is a staff member.

The Ontario Nurses' Association represents 43,000 registered nurses, registered practical nurses and other health care professionals working in hospitals, nursing

homes, homes for the aged, community health agencies and private industry.

We're pleased to make this presentation to the standing committee on finance and economic affairs so that our comments may be considered prior to the committee making recommendations to the Minister of Finance regarding the 1997-98 budget.

Our union has appeared before this committee a number of times in the past, and during our appearances we have consistently maintained that while there may be enough dollars in the health care system, we believe they are not being allocated in the most appropriate way. We continue to hold this position and have suggested that the system should be redesigned on a best-practice basis. Indeed, we have published a detailed description of what would replace it, entitled Dialogue on Health Reform: A Vision for Saving Medicare, and I have brought copies of that along with me today.

Central to this vision is a system of integrated delivery systems or health systems anchored to communities through regional councils with the power to allocate resources. So far, however, it seems that little has been done to rationalize the system and, as might be expected, we're beginning to see some of the real deficiencies in the system. We will address the rest of our remarks to these deficiencies.

Public accounts for 1995-96 show transfer payments to Ontario hospitals in the amount of $7.248 billion. The estimates for 1997-98 show an allocation in the amount of $6.698 billion, which is a reduction of $550 million or 7.5% over a two-year period. This is a large decrease, and it's not surprising that we're now beginning to see the serious problems emerging in the hospital sector. The present backups in emergency rooms, the closure of hospital beds and the layoff of nurses is finally producing the effects that we have been warning about for some time. The message we have for the government is to slow down the restructuring process and provide funds in those areas that require them. This would involve more funds, particularly in critical care, and some of the thousands of beds that have been closed may have to be reopened.

Residential long-term-care facilities will receive $1.164 billion in the fiscal year 1997-98, a slight decrease from the $1.167 billion they received in 1995-96. This is an unacceptable state of affairs since we have known for years that residential bed capacity is at a premium and more spaces must be made available. There's already a shortage of some 3,337 beds in nursing homes and homes for the aged and, by the year 2003, an additional 15,404 beds will be needed. We need to add capacity in existing facilities or convert existing facilities into long-term-care beds.

While hospitals have lost $550 million from their budgets, the government's total investment in all types of community-based care has increased from $1.032 billion in 1995-96 to $1.186 billion in 1997-98, an increase of $154 million. The bulk of this increase has gone into homemaking services, about $98 million, and to some extent into community support services such as Meals on Wheels, about $25 million. But none of these programs have been accompanied by an increase in the provision of professional services such as nursing services or other therapy. Indeed, in 1997-98, the estimates for the Ministry of Health show that professional services for home care will amount to $475 million, less than the $484 million we spent in 1995-96, which is quite astounding really.

The huge cutbacks in hospital expenditures have not found their way into the provision of professional care in the home, the exact opposite of what we would have expected to see, given the decrease in length of stay in the acute care sector. We are puzzled and concerned by this. If the government is not funding the increased need for home-based care, how is it being funded? We believe there are three possibilities.

The first is that people are simply doing without care in the home beyond a certain basic level funded by flat provincial expenditures, while family members are also providing extra care where they can.

Second, it is possible that individuals are paying for extra services from their own pockets. It is a well-known fact that private expenditures on health care amount to close to 30% of all expenditures on health care, a figure which has steadily increased over the past few years. It was 23.6% in 1975.

The third possibility is that physicians and other fee-for-service professionals are providing these services either through home visitation or having patients come to their offices. We note that the 1997-98 estimates anticipate payments to physicians and other practitioners to amount to $5.037 billion, up from $4.703 billion in 1995-96, which is an increase of $334 million, which tells us at the least that not all groups have had to share equally the burden of health care cutbacks. We suspect that all factors are at play and none is satisfactory.

The system of home-based health care services must be radically altered. The first step in any reformulation is to recognize that adequate funding must be guaranteed for home-based care. At the same time, it should be recognized that the current request for proposals tendering system in home care will lead to failure. Already nurses are refusing to work for the pitiful wages and poor working conditions found in many private agencies such as Comcare Canada Ltd, where our members have already been on strike for more than 15 weeks.

The aim of the RFP process is to subject the whole of the home care sector to a process where the only standard will be low wages, high turnover, poor working conditions and steadily deteriorating standards of care. All of this will be driven first and foremost by the profit motive, and other considerations, such as quality, will come second.

There is one last consideration. The privatization agenda of the government is in large part being driven by a perception that there is a surplus of nurses who will be willing to take any job at any price. This type of exploitation will not be allowed to happen, as the striking Comcare nurses have shown, and even the surplus argument is beginning to wear thin. That has already been demonstrated by the numerous reports that have been in

the media recently of shortages of nurses, especially in critical care areas such as the emergency departments, ICU, CCU and the OR departments in many institutions.

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We already know that enrolment is down in many nursing school programs, and all this is happening while the average age of a nurse is increasing, and that is approximately 44 to 46 years of age. A recent report on the future supply of registered nurses in Canada points to a serious labour market shortage in future years and raises questions regarding public safety.

There is a better way, and this government knows it. The tendering process must be done away with and replaced by a per diem system which recognizes fully the cost of providing quality care and is adjusted for patient acuity. This type of system already operates in the homes for the aged and nursing homes sector, and even though just enough money has been put into the system, it is a far better system than the RFP process.

In conclusion, we have argued that after years of cutbacks in the health care system it is now necessary to take remedial action. Special attention needs to be given to the hospital sector, and in the long-term-care institutional sector there should be an infusion of money into both the capital and operating budgets. In the home care sector, we have special problems as a result of the introduction of the competitive bidding process.

Finally, we reiterate that piecemeal changes to the health care system will not bring about a comprehensive, integrated health care system but will only perpetuate inequities and inefficiencies throughout the system.

Mr Kwinter: Thank you very much for your presentation. It's an issue I have some familiarity with. I just want to talk to you about a particular situation I am familiar with. I am on the board of Branson hospital. As has been widely publicized, the emergency department has had to be closed from 10 o'clock at night until 8 in the morning. Contrary to public belief, the major reason it had to be closed was because of the shortage of emergency room nurses. A lot of the doctors have left because they see the handwriting on the wall that they're going to shut down the emergency department and they want to get located in other hospitals. But the nursing problem was the determining factor, and it created a mini-crisis. The ministry had to step in, and now they actually put North York General in charge of the emergency department, but they still haven't opened it up at night. I was just curious. Is that something that is unique to that hospital or is this happening across the system?

Ms Mitchell: It's happening right across the whole province. They're not the only employer that's complaining about the shortage of, as I said, critical care nurses, nurses who work in all these high-risk areas. What's happening is that, as people become uncertain about the future, they're not willing to hang around and wait for the inevitable to happen. They're looking for new job opportunities and they're moving to where those opportunities exist. Nurses are not only moving from hospital to hospital, but some of them are leaving the country. This isn't a situation that's unique to Ontario; this is a trend that's happening globally. We're hearing from other countries as well that there are desperate nursing shortages in other countries. It's not like we can go and advertise in Britain for nurses to come over here, because they've got their own shortages to start off with.

Mr Kwinter: What do you see as the solution?

Ms Mitchell: I think we have to look at the system as a whole and start putting the resources into the community, retraining people for those positions in the community. If they could see that there were avenues open to them elsewhere, nurses would retrain. You've got a basic scope of knowledge and you can add to that knowledge at any time. So we should retrain nurses for those other opportunities that are going to be open.

We all know from what's happening that the home care sector is going to be the largest growth area in health care in future years. We're going to need huge amounts of resources in that sector, so we need to retrain those nurses now and get them working in the community so that, as more hospitals close and beds close, the supports are there in the community to look after those patients. The acuity of the patients moving into the community is increasing considerably because of the decreased lengths of stay, so we need nurses with higher skills working in the community as well.

The Chair: Thank you very much. You have one minute.

Mr Seppo Nousiainen: Perhaps I could add to that a little bit. We've got to be careful about the hospital restructuring process too. I think there's a sense that we're going much too quickly and that we're not looking after the fallout from that process in particular. There are a number of things we must do, but I wouldn't want you to forget that particular one.

Mr Phillips: One of the huge concerns I have is that we all salute home-based care and people staying in their homes longer and things like that, but I don't have a sense of comfort that I have a measurement on what's actually happening there. With a hospital if somebody is in the hallway and can't find a room, you know they're there and you can measure it, but when we have people in their homes, I'm not aware of any standard of measurement.

We now are going to publish the scores of all of our schools. Is there a similar measurement that would allow us in the Legislature to understand the level of care in the home that should be there and the level of care that is there?

The Chair: I'm going to need a yes or a no to that. We're out of time for the Liberal Party.

Ms Mitchell: I would say yes, there is a way to do it. The way to do it is for the government to set standards. Somebody has got to define what quality is, and that has got to be the benchmark by which we hold everybody accountable.

Mrs Marion Boyd (London Centre): I'm glad I was able to be here for your presentation. On the accountability issue, I think it's important for people to understand that nurses are the ones who have been calling for

accountability throughout the system at every level and have been very supportive of the notion that we need to have clear standards and a way to determine whether those standards are being met. I certainly know that this has been a very consistent recommendation on behalf of nurses.

I want to ask you a little bit in terms of that accountability, whether there are nurses who are working in the field who are at the point where they believe that their professional integrity is being really called into question as a result of the kinds of cuts that have happened. I certainly have had nurses coming to me to tell me about the kinds of work situations they have, where they are being moved from one area of the hospital to another, from one area of nursing to another, where they may not have the expertise that they had, because that's the way the hospital is managing, given this 7.5% cut that you mention in your area. Some are saying they're leaving the field because they're afraid of the liability issues and very much afraid that there has been a relaxation of standards because the hospitals are operating on a strict risk-management kind of program, they're not really looking at the care accountability. Can you comment on that?

Ms Mitchell: That's a story we're hearing on a daily basis. Nurses are angry, they're frustrated, they're trying to do the very best they can. Their workloads are increasing on a daily basis. The patients that are in the hospital are all sicker, they're going home sicker. There's just no downtime. The nurses are frustrated because they cannot give the kind of care they know the patient requires, yet it does make them think about their liability and their accountability to the College of Nurses, because there are professional standards they're supposed to uphold, and on a daily basis they're being pushed to the wall to provide care in accordance with those standards. We have nurses who are just waiting for the day for early retirement packages to come out, because they've had it, they're ready to go.

Mrs Boyd: So we're losing this expertise which we have paid for as taxpayers in terms of the subsidies we give to the training programs in the first place, and we're losing the expertise that has built up over a number of years.

Ms Mitchell: Which is going to be compounded if enrolment in nursing schools continues to decrease, because, as I said, nurses are aging. Where are we going to be in another 10 years, when the average age of the nurse who is currently practising is going to be 50 or 55?

Mrs Boyd: You talked about the Comcare situation in terms of home care, but a similar kind of thing is happening in hospitals, isn't it? Nurses have been laid off but then, to meet the actual requirements day to day, hospitals are hiring nurses back on a part-time basis, usually through an agency. That kind of lack of continuity is in the hospital as well. Am I right?

Ms Mitchell: Yes. Some hospitals do employ them through an agency. Just speaking to nurses last week, they said in an ICU situation in Hamilton they have agency nurses on a daily basis, maybe three or four per shift. It's creating all kinds of problems because that continuity of care is just not there.

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Mrs Boyd: Even though they've had to lay off nurses who used to be employees.

Ms Mitchell: They've laid off their own nurses. In other situations where they don't employ agencies, they have their own casual pool, those nurses who have been laid off are now in some instances working full-time hours as a casual part-time nurse.

Mrs Boyd: With no benefits and no security.

Ms Mitchell: Yes.

Mr Pouliot: People in the corridors; more and more of the people you represent on the verge or risking burnouts. You're asking that the revolution be put on hold until we can better assess the situation and do a more orderly transition. All this while the doctors, your partners, are being wrestled to the ceiling. One begins to wonder. If a government was intent on — I wouldn't go this far, but suppose that a regime was intent on creating a crisis with the ulterior motive of bringing more privatization into the system. Would this not be the scenario that they would paint?

I have some of our constituents — and I would welcome your comments — who have been waiting months for a procedure and they're saying, "Is there any way I can buy insurance so that I can ease the lineup?" hence jeopardizing — but they preach for their parish. It's a normal reaction. They're talking about themselves, their environment and their community. Do you see an invitation to more privatization if things keep going the way they are?

Ms Mitchell: Certainly if the government keeps on with its present position, I think it's just going to cause more and more problems in the health care system. It's going to become truly a two-tiered system. If you can afford to pay, you'll get service, and if you can't afford to pay, you won't get service.

Mr Pouliot: So the rich will be better treated.

Ms Mitchell: Yes.

Mr Wettlaufer: I'd like to thank you for your presentation. I'm not going to sit here and tell you that we don't have a crisis in health care, but as one who has had considerable experience in planning throughout his working life, I can tell you that you only develop a crisis in anything after a certain period of time, usually years, of poor planning. I have done a lot of work in the medical area since I was elected. My caucus members here will agree that I have been one of the most outspoken and certainly one of the hardest working in that area.

The more I get into it, the more I see that there has been almost no direction in the Ministry of Health for between 10 and 15 years. The more I look at it, the more I realize that previous governments were also cutting costs. In fact, the Liberal government indicated in the election campaign that they could keep costs at $17 billion. We're spending $17.8 billion in program spending alone.

I would agree that perhaps the allocation isn't quite what it should be, but that's as a result of 15 years of no planning. I sit down and talk with the administrators of our hospitals and they tell me they've had this problem for years. They've had a shortage of rooms, they've had lineups in emergency, they've had people on stretchers in the halls for 10 or 15 years at various stages throughout the year. Yes, we've had a shortage of nursing in the last year or two, more so than perhaps at any other time. Is that as a result of cutbacks? Perhaps it is. Is it as a result of poor planning at the hospital level? I don't know. Maybe it is. We're getting more into that.

I think what we have now, however, is a Minister of Health who has a vision and who bloody well knows where the ministry is going to go, and she's going to take it there. I hope it will improve the system for you.

Ms Mitchell: I recognize and acknowledge that the health care system didn't get into the situation it's in now in the past couple of years. It's been something that's developed over many, many years. As nurses, we have been pushing for health care reform. I think back to 1975, with one of the first documents that we released. We don't put all the blame on to your government. However, we really believe that what you have to do is plan first, and we don't believe that what is happening currently is good planning.

The supports have to be there in the community before you start looking at what you're going to do with the acute care sector. So before any more hospitals close or programs close in any community, we must ensure the supports are there in the community to receive those patients and care for the patients in their homes.

Mr Wettlaufer: You will find that the members of our caucus have been very vocal with Mr Sinclair, the chair of the Health Services Restructuring Commission. Several of us told him in no uncertain terms that we didn't want any more hospitals closed until he had a plan for other services in that area.

Mrs Boyd: Boy, that's an independent commission, isn't it?

The Chair: He didn't say he listened to them.

Mr Galt: I'm just curious on the shortage of nurses. I'm hearing two messages and I'm very confused. I've had nurses make presentations to me about losing jobs and there's a surplus of nurses and what were they going to do, and of course there's going to be home care in a lot of other areas. Now I'm hearing an emergency room has been closed, at least for a period of the day, because of a shortage of nurses. I'm also hearing at this presentation there are many other countries with a shortage of nurses. I'm confused. What is the truth out there, or is it just complaining both ways? It's very confusing.

Ms Mitchell: It's a combination of factors that you've got to look at. As employers struggle to deal with reduced revenues, one of the first things they have to deal with is front-line providers, because that's where the bulk of their resources go. We've moved to casualization of the workforce. We've got rid of regular part-time nurses; we've got rid of full-time positions and forced these nurses into casual part-time.

How that shortage has now developed — you don't work full-time just for the love of it. I would love to be able to go to work and know that I didn't have to go to work, but there are certain factors that you have to cover off. You've got to live.

Nurses then look for as much employment as they can. So instead of working for one employer, they're working for two, three and four employers. That's where your shortage is created. I now work in four agencies. I might work one shift for one employer, but I've made myself available in three other agencies. Employer number 1 now decides they need me to work. They call me, but I'm already committed to work in agency B. So the casualization of the workforce is creating its own shortage.

We've got at the other end those more senior nurses looking for early exit options or just getting out of nursing altogether, and there are nurses who are in a layoff situation who are going to the States because there are lots of jobs down there. Nurses are still going to Saudi Arabia, and I know of nurses who have gone to Britain.

The Chair: I must interrupt you there. I do thank you for your presentation and for your time today.

ALLIANCE OF MANUFACTURERS AND EXPORTERS CANADA, ONTARIO DIVISION

The Chair: The second presenter this afternoon is the Alliance of Manufacturers and Exporters Canada. Gentlemen, welcome and thank you for coming.

Mr Paul Nykanen: I'd like to thank the committee for the opportunity to present our pre-budget submission and to offer some comments from the manufacturing perspective.

My name is Paul Nykanen. I'm vice-president of the Ontario division of the Alliance of Manufacturers and Exporters. With me are John Allinotte, director of corporate taxation for Dofasco and chair of the alliance's taxation committee; David Burn, who is vice-president, taxation, for Nortel and also chair of our national taxation and financial issues committee; and Brian Collinson, director of commercial policy for the alliance.

Before we present our specific recommendations to committee, I'd like to just briefly state who we are and what we represent. About a year and a half ago, the 127-year-old Canadian Manufacturers' Association merged with the 54-year-old Canadian Exporters' Association to form the alliance. We represent small, medium and large members from across Canada and we cover all sectors within the goods-producing industry. Approximately 60% of our member companies are in the province of Ontario, and the member companies represent over three quarters of the total manufacturing output of the province.

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Our mission is to enhance the competitiveness of Ontario manufacturers and to increase exports. In order

for us to do that, we must have a public policy environment that is competitive with other jurisdictions not only with Canada, but internationally as well. Jobs depend on profits, and I refer you to a chart in the appendix section of our written submission to illustrate this point.

High tax rates are the reason why we face greater difficulties in attracting and retaining business investment and why many manufacturers and exporters are experiencing problems in securing product mandates. Those difficulties have become more pronounced as governments around the world transform their corporate tax systems to attract new investments by guaranteeing higher rates of return.

We applaud the government for significant progress in debt and deficit reduction, and we urge you to stay the course on these measures. Ontario businesses are well positioned for success in the global economy provided they continue to invest for growth. These investments are dependent on a competitive tax structure, and I will now call on John Allinotte to provide the committee with specific recommendations from our association.

Mr John Allinotte: As Paul said, it's a pleasure to be here to present the alliance's point of view with regard to our tax structure for Ontario.

Let me first say that despite Ontario's substantial economic accomplishment, the alliance believes the province must continue to translate its fiscal achievements into further economic growth and good future prospects for Ontarians for the long term.

In general, Canadian jurisdictions are not preserving the standard of living of the average Canadian relative to the standard of living of other developed nations. What is more, Canada has underperformed its chief competitors in attracting foreign direct investment. The OECD reports that, unlike Britain and the United States, Canada had $0.9 billion less net foreign direct investment in 1996 versus 1995. This points strongly to the need for taxation and fiscal policy which is designed to actively increase levels of foreign direct investment in Canada. In the view of the alliance, many of the following recommendations will directly encourage this foreign investment.

Recommendation 1: We suggest that to further twin the goals of economic growth and employment growth, Ontario should pursue a strategy of surgically targeted tax reductions.

The alliance continues to extend its support for the debt- and deficit-cutting measures of the province of Ontario. We believe these measures should be the top priority of the government, as they are essential to the long-term economic health of Ontario.

Recommendation 2: Debt- and deficit-cutting measures must continue in conjunction with targeted tax reductions. The government should continue this activity through ongoing program revisions and rationalization.

The OECD notes that ever-increasing interjurisdictional competition characterizes the global economy. In such an environment, Ontario generally needs to lower corporate income tax rates to meet the challenges of trade liberalization and competition from jurisdictions with lower wages and devalued currencies.

Recommendation 3: There is a genuine need to lower the corporate tax burden to meet the challenges of trade liberalization and competition from all competitors.

The alliance strongly urges the government of Ontario to rally and lead the non-harmonized provinces into full and complete GST-PST harmonization. Sales tax harmonization would improve the overall domestic and export competition of industry operating in the province of Ontario. The current balkanized sales tax situation weakens the competitiveness of Ontario goods, both in the domestic market and in export markets, against those competitors from jurisdictions with harmonized sales or value added taxes. Indeed, a growing body of evidence shows that investments are being made in the harmonized provinces at the expense of Ontario. The multiplicity of sales tax regimes in Ontario is a bureaucratic excess that Ontarians can ill afford.

Consequently, recommendation 4: We at the alliance again encourage Ontario to take the lead in encouraging the harmonization of the GST with all the provincial sales taxes.

Corporate minimum tax should be abolished. The corporate minimum tax is a strong disincentive flag to potential industrial investors in the province of Ontario, having its origin in an ideology which portrays corporations as not paying their fair share of the taxation burden. Above all, the corporate minimum tax is inconsistent with the message that Ontario is open for business, a message that the Ontario government has laboured long and hard to present.

Our fifth recommendation is that Ontario should abolish the corporate minimum tax, as it is a highly visible disincentive to investment in Ontario.

Like the corporate minimum tax, capital tax is a disincentive for ownership of capital in the province of Ontario. Prior to its election in 1995, the current government made a commitment to make the capital tax creditable against corporate income tax, to render it much less punitive to corporations having assets in the province. None the less, the alliance views the capital tax as a fundamentally flawed tax which takes no account of the fact that corporations are required to pay the tax even when they have no income. Corporations that find themselves in this situation for any length of time are likely destined for bankruptcy or relocation.

Recommendation 6: For similar reasons to those in recommendation 5, Ontario should abolish the capital tax or, as a minimum or interim step, should make the capital tax creditable against future income taxes.

Enhancement of capital recovery in the manufacturing sector: The alliance is currently involved in the preparation of quantitative economic work that will document the substantial benefit that would accrue to Ontario through an improved capital recovery regime. This is a competitiveness issue, for many competing jurisdictions have exceptionally good incentives for the investment or reinvestment of capital, including a very rapid depreci-

ation for advanced production machinery. Such a tax measure would substantially increase the cash flows of manufacturers, with a large resultant economic benefit.

Recommendation 7: The Ontario government should enhance the capital recovery regime in Ontario in order to increase the competitiveness of Ontario business taxation and encourage investment in Ontario's manufacturing base.

Simplification of the R&D superallowance: The current R&D superallowance is complex to calculate and difficult to administer. In particular, the incremental component of the allowance is cumbersome, which could be addressed by changing the superallowance into a single-rate, non-incremental allowance while simultaneously increasing the allowance rate slightly to offset the benefits currently derived from the incremental component. This measure would be revenue-neutral and would greatly reduce the administrative costs to business and government alike.

Recommendation 8: The Ontario R&D superallowance should be changed into a single-rate, non-incremental allowance.

Complete elimination of the 5/15s addback: Ontario is the only jurisdiction with a tax like the 5/15s addback of withholding tax, which imposes a tax on management fees, rents, royalties and similar payments to a non-arm's-length non-resident. The alliance believes there is little policy justification for such a tax. The addback provisions are a strong disincentive to the flow of technology and other productive goods into the province of Ontario, and the addback on lease payments has cost Ontario a number of leasing-related businesses.

Recommendation 9: The 5/15s addback should be eliminated, as it impedes the flow of technology, knowledge and productive resources into the province of Ontario.

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On personal income taxes, and following along the comments of the nurses, this is possibly part of the reason for it. The alliance believes that at least some of the economic recovery in the province is attributable to the personal income tax measures which the current government has taken since coming to power. None the less, the alliance has become increasingly concerned with the continued outflow of skilled knowledge workers from Ontario. We believe this outflow will continue for as long as Ontario and Canada continue to have such steeply progressive rates of personal income taxes.

Recommendation 10: We suggest to you that measures be taken so that this tax is reduced.

Provincial sales tax on software should be eliminated: The alliance believes there are two good reasons why software should be exempt from Ontario provincial sales taxes. First, tax policy should be designed to incent business and industry to adopt new technologies. However, imposition of PST on software has the effect of disincenting the acquisition of new technology in the form of software. Second, the provincial sales tax on software represents yet another tax on business inputs, which increases the ultimate cost of Ontario goods and thereby reduces the competitiveness of Ontario goods on export.

Recommendation 11: In order to increase productivity in the Ontario economy, to enhance the competitiveness of the industry and to avoid the negative competitive effect of additional sales tax on inputs to Ontario products, the provincial sales tax on software should be repealed.

Taxation policy must address the year 2000 computer date problem: Here we have three recommendations.

Serious questions surround the readiness of computer technology in the manufacturing sector and related sectors to handle the date requirements of the coming millennium. This is especially true among small and medium-sized manufacturing and processing concerns. Substantial business disruption may well result and lead to failure to meet contractual obligations, layoffs and bankruptcies, which may cascade and disrupt the supply chain of many large enterprises. The taxation aspect of this problem must be taken into account for the long-term economic well-being of Ontario.

The alliance is also concerned about the year 2000 readiness of the infrastructure of Ontario upon which manufacturing and other business concerns depend, in particular the readiness of the electrical, natural gas and other utilities, transportation infrastructures, government ministries and municipal governments and infrastructures.

The government of Ontario should review all governmental, quasi-governmental and municipal infrastructures essential to business and industry to ensure that it is year-2000-ready. It should also put in place a unified government-wide strategy for year 2000 readiness, coordinated and executed by a central body such as the Management Board of Cabinet.

Our three recommendations here:

The alliance urges the government of Ontario to adopt the accounting guidelines for year 2000 compliance costs set out in the emerging issues committee of the CICA.

For the ongoing health of manufacturing, processing and exporting activities in the province, the government of Ontario should rapidly introduce revenue-neutral tax encouragement measures to facilitate year 2000 readiness on the part of business, and especially small and medium-sized manufacturers and processors.

Third, the government of Ontario should use every means at its disposal to ensure that the governmental and quasi-governmental infrastructures that are essential to business and industry have attained the necessary level of year 2000 readiness, with particular attention being given to utilities and transportation infrastructures, government ministries, and municipal governments and infrastructures.

Furthermore, the government of Ontario should put in place a government-wide strategy for year 2000 readiness, with responsibility for its execution being given to a centralized authority.

Thank you.

The Chair: Thank you very much, gentlemen. We have about four and a half minutes per caucus, and we'll start with the NDP.

Mrs Boyd: Thank you for your presentation, both the larger printed presentation, which goes into more detail, and what you presented verbally this afternoon. I take it from all your recommendations that you are as a group not of the view that the government has any kind of revenue problem. You feel it has a spending problem but it doesn't have a revenue problem. Is that correct?

Mr Allinotte: I think, as far as a revenue problem, they have in place tax systems that are raising more revenue than our competitor countries. I mean, we only have to go across the border into Quebec and compare the corporate tax rate for our manufacturers in Quebec versus Ontario and we find that we pay more.

Mrs Boyd: But every time the government lowers taxes, as we've seen with the personal income tax lowering, it incurs more debt. This government continues to incur deficits and continues to build on the debt, and the biggest factor in that is the cuts in the personal income tax. So although they've cut drastically in programs and we're all feeling the effect of that, the reality is that they have a revenue problem, not just a spending problem. Yet you come in with recommendations that would see further cuts in the revenues to the province. If all of these things were put into effect, how would you expect a government to manage?

Mr Allinotte: From the alliance's point of view, a lot of these recommendations that we've put forward, our analysis would show that there would be economic growth. Similar to the tax reductions that were afforded in the personal regime in Ontario, we expect to see the same type in the business community.

Mrs Boyd: I think that's interesting. In fact, your financial outlook is considerably gloomier than what we heard this morning from Nesbitt Burns. You're predicting a gross domestic product increase of only 2.8% in 1998, and Dr Cooper was saying that in Ontario she expected that growth rate to be considerably higher, 3.3%, which is what you're talking about. On the one hand you're saying you want them to not charge all these taxes, but you're predicting a very conservative growth in the economy to make up for the difference in the revenues that the government would have.

Mr Allinotte: Yes, but those economic projections do not take into consideration any tax reductions.

Mrs Boyd: But the government has to take them into consideration. You said the answer to their revenue problem was that there would be growth in the economy and that would offset any reduction in the revenues that they got from taxation. It is not apparent from your presentation that this in fact would be the case.

Mr David Burn: If I might jump in, the Ontario government over the last decade or so has made dozens of increases in the business tax world. The number of reductions you can almost count on one hand.

The point we're trying to make is that the next incremental decisions of most of the non-resident investors in our factory facilities in Ontario and those, as our two corporations are, which are based in Ontario are very much determined upon what the overall costs are of doing business in this province. You heard in the presentation that already Quebec has an edge on us because they've got a harmonized GST and provincial sales tax, and that makes quite a difference.

You will also see in the presentation, I think on the very last page of the hard book copy, where Canada fares, and Ontario in particular, in comparison with the other countries in the world. We're not competitive. If there is one other country out there where all other facts are the same but their tax rate is better than ours, then they are the ones that have the advantage. If you speak to our people who try to sell the province abroad and they have to admit that there is one other country that's maybe more favourable, then the first question of that potential investor is, "Which country is that, or which jurisdiction?" That's what we have to fight.

Mr Baird: Thank you very much for your presentation today. We're certainly interested in what you folks have to say because manufacturing is one of the cornerstones of the Ontario economy. I wanted to ask you briefly, just in response to the comments made by my colleague from London Centre, is your argument that if we cut taxes, economic growth will go up and more jobs will be created?

Mr Allinotte: To the extent that we're looking for capital investment; from it comes jobs. One thing the manufacturing sector is quite willing to admit is that the growth in jobs today is not the same growth in jobs we saw in 1972, but these measures that we are looking to in this presentation are the measures that we put in, or the governments put in, in 1972 that caused Ontario to grow during the 1970s and early 1980s.

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Mr Baird: In the late 1980s and early 1990s when taxes went up, what type of effect did that have on your members?

Mr Allinotte: Capital expenditures in the province fell off considerably.

Mr Baird: And economic growth went down.

Mr Allinotte: That's right.

Mr Baird: I think the argument speaks for itself. When we're cutting taxes, revenue is going up. It's the exact same thing that happened in the previous government, where they increased taxes and revenues went down. Past practice dictates future results, in my view.

I wanted to further ask you with respect to page 9: You mentioned the personal income tax and the effect it has had on economic growth. What is a typical business that would be a member of your alliance, a typical manufacturer in a consumer good, for example?

Mr Allinotte: The automotive industry is a part of our alliance.

Mr Baird: So on the automotive sector, obviously interest rates are going to play a major part there. What the government can do on interest rates is keep debt low and keep the deficit low and eventually eliminate it. That presumably will have some impact.

As well, we learned this morning from Dr Sherry Cooper that with household income and consumer

spending there is a very close relationship and that the tax cut has had a substantial impact there. Would you agree that the rise in consumer spending, particularly leading in the automotive sector, and the tax cut adding to household income and consumer spending have had a positive impact on your industry?

Mr Allinotte: I can't speak for the auto industry. I'm in the steel industry, and our steel production that goes out to the automotive industry has certainly climbed.

There's one thing I can tell you about personal income tax after being in tax practice for over 30 years. One of the things we find is that when the take-home pay of an individual goes down because of deductions at source, the place they turn to is their employer. Their employer in the 1950s, 1960s and 1970s was able to make up the shortfall that was being caused through increased taxes. Once we started hitting 1980, the global economy came upon us and we no longer could do it. The consumers, our employees, have no money to spend. Tax reductions will cause them to spend that.

Mr Kwinter: I have a question. I didn't see any reference to the whole MAI issue. Does your alliance have a position on the MAI? Have they been advising the federal government? Do you have a feeling as to what the shortcomings or the advantages of it are?

Mr Brian Collinson: The alliance is currently in the process of formulating a detailed position on that and we'll be releasing a paper in the near future. At this point in time, it would be a bit premature for us to speak about our position in the organization as a whole on that.

Mr Phillips: Yours was a very thoughtful presentation. Among other things, your advice on the problem with 2000 is important. On behalf of our caucus, I sent a letter to the minister before these presentations just asking the government to respond to it, and certainly we'll push that. Your advice on the various tax measures is important as well.

I want to just get a sense from you, because your organization probably has your finger on the economic pulse: With just-in-time delivery and what not, you probably can sense upturns and downturns, but you are somewhat more pessimistic in terms of the economy than other presenters we've had here. I realize you are talking about the Canadian economy in your brief here, but you are predicting 2.8% growth, if I'm not mistaken. You haven't commented on the Ontario economy but you're sending out some caution signals for us which are quite important because revenues tend to be driven fairly much by economic activity.

Is your sense that in the Canadian economy, and I'd particularly appreciate if you could comment on the Ontario economy, there are some things that are beginning to weigh against economic growth?

Mr Nykanen: On a domestic basis, consumer spending is way down for the reasons that have already been stated. If we take a look over the past 10 years, we've seen a continuing deterioration in terms of the Canadian manufacturers' share of the domestic market, whereas all of the growth that we have been seeing has been in the export business, where we've had the exact reversal. If it wasn't for the exports, we would be in tremendous trouble.

We are also subject to a lot of uncontrollables, if you will, in terms of the ability of Canadian manufacturers to export. Those are things such as currency fluctuations obviously, but probably more importantly, going into the automotive sector, the economy in the United States is a key factor. As long as the economy in the US is booming, people are buying more automobiles. More automobiles mean more business for Canada, which also means there are suppliers for that industry. But because we're vulnerable on so many of these external factors, there is a degree of caution there.

Mr Phillips: Has your organization had an opportunity to comment on the Ontario economy? As I say, you predict a 2.8% real growth for the Canadian economy. Have you done any work on the Ontario economy?

Mr Nykanen: I don't have an exact number on that, but our economist feels that the Ontario economy is going to be better than the overall Canadian economy.

Mr Phillips: You're pushing very hard to harmonize the GST and PST here. Actually, there's been relatively little talk at the committee about that that I can recall. In past years there was more talk about it. Have you any estimate of how much provincial sales tax is represented by exported products? In other words, how much of the provincial sales tax is revenue that goes on to products that you export?

Mr Burn: I think we've heard a number that may be in excess of $1 billion, which obviously is a fairly significant number. Having said that, that is a cost that's going into our exports, so it has increased our exports by $1 billion.

The point that I was alluding to earlier is that already we're seeing investment decisions — plants, computers, different business activities — being located to our east, which in due course will attract more jobs, more spinoff businesses and so on.

As long as Ontario and the federal government can't get together on this issue — I was interested in your comment about not hearing much about the issue. This has been one of our prime issues for a number of years. When we raise it in Ottawa, they say, "Well, the provinces don't seem to think that business is pushing for this," and that is actually not the truth. We are pushing very strongly for it. We think probably it's one of the most important issues, but we just can't get it to the top of the agenda of the rest of the country, so therefore it's fallen away from the top of our agenda, frankly.

The Chair: I apologize, but our time is up and we have to move on. I thank you for your time, gentlemen, and for your presentation.

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ONTARIO SOCIAL SAFETY NETWORK

The Chair: The next presenter this afternoon is the Ontario Social Safety NetWork, Sherrie Tingley and Scott Seiler. Welcome. Thank you for coming.

Ms Sherrie Tingley: I want to thank you for the opportunity to present to this committee. I'm Sherrie Tingley. I'm with the Barrie Action Committee for Women. It has been operating for eight years as a volunteer group of women. Primarily we look at issues of poverty and single mothers. In addition, we belong to the Georgian Bay Coalition for Social Justice, so we work with our partners in the community. One of the things our coalition for social justice did was look at the welfare mess and undertake a public education campaign. When we did that, we received 400 calls on our phone line, a lot from recipients struggling with the welfare cuts.

In addition, I am the chair of the Centre for Equality Rights in Accommodation, which assists 800 people a year to get housing in the province of Ontario, a lot in Metro. As well, I sit on the advisory committee to the city of Toronto on homelessness.

I'm a single mother of a 13-year-old and I'm self-employed. I do Internet work, online work, and Web design. I spent one year on social assistance at one point, and like the majority of single parents I was glad it was there, but I moved on.

This is Scott Seiler of the Income Maintenance Group.

We're presenting on behalf of the Ontario Social Safety NetWork. That's a provincial coalition concerned about the dismantling of social protection in Ontario. The Ontario Social Safety NetWork membership includes individuals and representatives from community groups, community legal clinics, faith groups, social development organizations, labour, multicultural, seniors and anti-poverty groups, as well as disability groups.

I've never done a pre-budget consultation so I was a little lost, but I hope to have your indulgence, because I've had a budget question that in my community has been unsolvable for two and a half years. You need a blank piece of paper to do this, maybe, and you can help me with it.

You start with $957, and in my community you take away $725; that's the average CMHC rent, if you're lucky enough to get that rent. Hydro costs you $75 a month. We're up to expenses of $800 a month there. A phone is $25 a month. Content insurance, and many landlords demand that you have it, or at least liability insurance, is generally $10 a month. Laundry, if you're really careful, is $10 a month. Soap, toothpaste, those sorts of special needs, if you're very careful are $10. Cleaning supplies are $5. School supplies are $5. Transit, with four trips a month, with a child, in my community is $10. The drug co-benefit for many people works out to $10 a month. If you want to have shoes and boots for your child's growing feet, that's $10 a month. With welfare benefits of $957, that leaves $57.

My dilemma for two and a half years has been to tell people what to do and what to cut. You can cut your laundry a little and try really hard to wash things by hand, so there you have $10. School supplies you can generally cut. Some people can walk, but in many communities in Ontario, including mine, it's a real challenge, but you could try to do that. The drug co-benefit — you can often go without your drugs and I guess risk a child's illness getting worse. You might, if you're lucky — well, you won't any more, I don't think, in any of the hospitals in Ontario. You used occasionally to be able to get a prescription, but now they give you enough for one dose and you still have to take the taxi to the pharmacist.

That's generally a budget dilemma that I have been unable to solve. After the welfare cut, 80% of the families in Ontario were paying well over $100 above the shelter component of the welfare benefit, and in addition there was the reduced basic needs component that really had no room to take things from. So many people in Ontario with children have that budget dilemma of how to make $50 feed yourself and your children.

I don't know if anyone has any answers. Maybe this is something you can answer as you're pondering your budget, because it's a very pressing concern. We're seeing the level of homelessness just go beyond compare, and of course we're seeing more children now in shelters, and single men. In my own community of Barrie it is estimated that there are 6,000 people homeless. Increasingly, people are getting concerned. Recently, 400 people turned up for the volunteer training for the Out of the Cold program, so people are very concerned.

I know that often the government comes back and says, "Well, our rolls are down and there are 100,000 fewer children." We're concerned about where people have fallen and we're hoping that that can really be tracked. We're also concerned about where people are going to go, with the announced changes to welfare and to the housing rules as rents start to skyrocket.

We're very concerned that we've had no opportunity for public input into the regulations in the new welfare reform act and that they have not come out yet, although people's lives are going to be affected by them come April 1.

We're very concerned about what is happening with people and their children. I had mentioned that our coalition had done a myth-busting campaign and got 400 calls from October to May as the welfare cuts hit. Many of those people called us to ask us that dilemma question, "What do I do?" and for help in terms of being evicted, for information on getting on waiting lists that are three to four years long, and to tell us their stories. I've given you a copy of some stories. Some of the stories we heard were just heartbreaking.

Often people chose to double up and we're very concerned about that. That's a real hidden poverty. With 80% of the caseload having rent well beyond the ability of the shelter component of their cheque to cover, we know that at least half of those people could not maintain the housing they had, so we heard many women talk about doubling up. For children, that's very difficult. Often they're allowed to have one toy. Quite often in the evening they have to go out if they're staying in a friend's living room, and after about two or three months they have to move on to another friend's.

The shelter system for women and children is the last resort, so when you see the numbers on the shelter system

in Metro — and that applies to all communities that have high shelter costs, high rent, which is a lot of them — that's just an indication of what is happening to families. A conservative estimate is that for every family in a shelter, there are at least 10 families in horrendous housing situations, doubled up, in friends' living rooms, parents' basements — now, in some cases parents have great basements — or sharing with their parents in an apartment.

We know it is very difficult for children, and when they have to change schools it's a real challenge. Again the dilemma comes into play. How do they get access to housing? They cannot find affordable housing, because we know that the shelter costs in Ontario are extremely high.

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One of our questions for this government — I don't know how this is going to play out — is, what's going to happen with the child benefit? I wonder if Ontario is going to have the courage to be the province that doesn't take it away from people on welfare. That's a 10% increase, and it will be a 10% decrease in what you pay out to people on welfare. I think the increase in July will be $40 or whatever. What's $40 for a child? But will you allow that family to keep that money or will you take it away?

One of my concerns is the increasing health care costs of some of your decisions. Poverty is the best predictor of a child being born with low birthweight, of a child dying in a fire and of a child having a disability. In addition now, with the determinants of health, the things that determine health, we're starting to understand — number one, it's the gap between what most people have and then the bottom, what you don't have. We know it's not the level of richness; it's the difference between the incomes people have. We also know that it's control, the ability to make some decisions about your life and having some control. For a lot of people on welfare, there is no control. There are no choices. There is a lot of despair. There's increased drug use, Prozac and what not, depression, and there's a lack of control, a lack of hope.

We know that for a single parent it's a disaster to have a child with an ear infection, at least in my community, $20 to get up to the hospital if you can't wait until the next morning, and then it's $20 to go to the pharmacy and $2 for your copayment. You probably have to buy Tylenol, and for a child that's $15. Then the taxi back home is another $20. This is a disaster for a family. Then if you buy the Popsicle and ginger ale so your child doesn't become dehydrated and have to be admitted for two or three days with an IV, again $5. What are you going to do? It's a disaster. Families are at risk of losing their housing. With that kind of disaster, you can't make your rent.

It's just terrifying, and people are terrified. We know what that's going to do to their health and we know what it has done to their health. Again, they fall on to the street, and you know what you pay in hotel costs for a family that has fallen on to the street.

As workfare comes in for single parents — again, many have been talking about it — they're terrified. The stories are different. No social worker seems to know what's going on. The regulations aren't down. There are no answers. What's going to happen to that mother with that sick child? Does she go to her placement or does she send her child to school? Often you have to go to the doctor. Do you go to the doctor and risk losing your income? It's your choice.

What's the cost of not looking after that child, not seeking medical attention? I don't know if any of you are parents, but you know with the ear infection that it goes on and in two weeks you've got something else, and these children aren't feeling well. Will she be cut off if she misses three times in a week? Will the child be sitting in school? They're terrified now with CAS. If you send your child to school sick, will CAS say you're neglecting your child?

The stress levels are just beyond compare. I was hoping — the discussion earlier seemed so complex — that you people may have the answers for people, because I haven't been able to find answers for people at all. I hope you will read some of the stories people shared — it was very difficult — and I hope you will look at the mess and what we feel needs to be included in a social safety net. I'll turn it over to Scott.

Mr Scott Seiler: Actually, this is the seventh time I've presented in front of the standing committee on finance, and what's remarkable is my seventh time here is that it's almost identical to the first time I was here. I think that's a very telling statement all on its own. The only difference between the first time and this time is that the situation has got only that much worse than it has been in the past for people with disabilities, and that's my primary bailiwick, as an activist and an advocate for disabled issues.

The group I represent primarily is the Income Maintenance Group, and we have been around since 1978, asking for reform to social assistance and the programs that surround social assistance for disabled people. To be very frank with you, the situation is steadily getting worse and worse for disabled people. Bill 142 has redefined what disability is and will end up resulting in the cutting of tens of thousands of people with disabilities off social assistance in the next six months, before implementation of Bill 142 occurs.

Yes, we believe Bill 142 will not be cutting people off, but I'm afraid the people with disabilities who are going to be cut off social assistance aren't going to make implementation of Bill 142; they're going to be cut off now. I know that because I am getting, and so are many other groups in the community, dozens of phone calls from people who are being reassessed as we speak for their status on FBA as a disabled person. This is not happening only in Metro; this is happening right across the entire province and is impacting on tens of thousands of people with disabilities. The fear level out there in our community is so high right now because of the massive campaign to try and throw as many people off as possible. It is just incredible. People who get these letters are scared to death, because they know what the letter really means. It means that you're gone off the system.

Also, we're seeing the diminishment of the kinds of support services that persons with disabilities need out there in the community, for education, training, health care. As these systems deteriorate, so does the likelihood that people with disabilities will be able to build a better life for themselves either now or in the future. We're seeing that diminished almost on a daily basis here in the province, with the cutting of specialized programs for persons with disabilities on all kinds of levels, everything from special services at home being scaled back and disabled single parents with disabled children having to go through the welfare cuts, as well as the changes going on to workfare and others. There has been no evidence shown by this government that single parents with disabled children, for instance, will be exempt from workfare. If that is the case, that they will have to do workfare, I would like to ask the government members who is going to look after that disabled child, or will that disabled child have to be given up and the state ending up paying for that?

There's a lot of real silliness going on here. We save money in cutting back on welfare payments to individuals with disabilities, but we also increase the stress level, which increases the amount of hospitalization of psychiatric survivors, which increases the amount of money the health ministry has to spend. So in one area you save money; in the other area you spend three times the money you save. This is a common occurrence when we start piecemeal to try and save money. This is what is happening across the board. We're already seeing our emergency departments in our major hospitals completely overwhelmed, and that's only going to get worse as time goes on and as the cuts go further and further.

We've got problems. For instance, out in Mississauga, the United Way has said to the Mississauga area United Way agencies that the chances are that they're going to have to shut down for three months this year because the money isn't there to run the United Way agencies. Once you add downloading to that, God help us all.

The Chair: Thank you very much for your presentation. We have approximately two minutes per caucus, the government caucus first.

1520

Mr Galt: Thanks for the presentation. I'm a little disappointed about some of the myths you're sharing with us here this afternoon, but so be it. I don't think there's anyone around this table who isn't empathetic to those who are less fortunate and wants to try and help in some way or other.

Once upon a time, the churches took quite a responsibility in looking after charity and the government sort of took that away from them. But from what I'm hearing here this afternoon, you're telling me, at least that's the interpretation I'm picking up, that the government should be totally responsible and the churches and other organizations in other areas shouldn't have a responsibility for those who are less fortunate. Is that what you're telling me this afternoon, that it should be all the government's responsibility?

Ms Tingley: That's what the International Covenant on Social and Economic Rights says.

Mr Seiler: And you are a signator.

Ms Tingley: You signed it. You're held up and judged in a world context.

Charity relies on giving to somebody in need and just giving them what you think they need. We had a social assistance system that had single people on for an average of five months and single parents on for an average of three years, not like the United States. We had a system that was relatively working. We had a number of supports. We had a system that caught people. The churches used to provide health care and hospitals in this country. Should we take that away from them?

Mr Seiler: Would you like to go back to the 1840s?

Mr Galt: You didn't answer me yet. Does the church not have a responsibility for helping, and some other organizations?

Mr Seiler: No.

Mr Galt: The church doesn't?

Ms Tingley: It has a role.

Mr Seiler: Not for the basic support and basic needs of people with disabilities —

Mr Galt: No, I didn't say that. I asked whether they do not have a role, and you said no, they don't have a role to help charities.

Ms Tingley: I think they have a role comparable to their role in the health care system.

Mr Galt: A role comparable to the health care system?

Ms Tingley: To their role in the health care system.

Mr Seiler: Going in and friendly visiting people, supporting people but not providing income to people.

Mr Galt: Not providing money or not providing any other services or anything else, the churches become a very expensive social club to belong to. That's what I'm experiencing with the one I belong to; I've cut off giving to mission and services. With this kind of attitude — and I understand you're a minister of the United Church.

Ms Tingley: I'm sorry, I'm not a minister.

Mr Galt: It says "reverend" here. I've been told that in the past.

Ms Tingley: No, I'm not.

Mr Seiler: That's Susan Eagle.

Ms Tingley: Susan is the chair of the Ontario Social Safety NetWork.

Mr Galt: Anyway, your comments about the churches not having a responsibility were interesting.

The Chair: I think we've answered the question. We'll move to the Liberal Party.

Mr Kwinter: For the last several months the Minister of Community and Social Services has regularly announced that social welfare rolls are down. The perception is that they're down because these people have now found work and are able to sustain themselves, able to do all these great things that don't require assistance from the taxpayer.

My question to you is, in your experience, is it the case that there are people who are on there fraudulently and have been discovered? Is it that they have in fact found

jobs for these people? In real terms, have more and more people been put back into the system or is that not the case? Could you elaborate on that for me?

Ms Tingley: I would say it's not the case. In the studies they are referring to, they couldn't locate 60% of the people. Many didn't have phone services. Of those contacted — this is the government's own study — only 27% had found work. That's just like the regular turnover.

In terms of fraud, they haven't been able to find any increased fraud. What did they find in Metro? $2.2 million. Often they were administrative errors. My welfare administrator up in Simcoe defrauded the system of $500,000, half a million dollars. He's facing fraud charges. Maybe you need to look at the welfare administrators if you're trying to save money.

Mr Seiler: Actually, I was told an interesting thing by a university professor a couple of years ago. The reason they switch workers on social assistance recipients on a constant basis is for that exact reason. In the past, they've found that social assistance administrators putting family and friends on the system is a common occurrence.

Mr Pouliot: I certainly welcome your presence. This is a pre-budget consultation where groups, organizations and at times individuals share their expertise and education with all of us. Also, they give recommendations on the eve of what is the most important tabling of legislation, that of the fiscal year budget. You're most welcome here.

This is a time of recovery, by all accounts. Governments, regardless of stripe, try to put their best foot forward. In terms of the human dimension, you must feel that the recovery, for the people you represent, has passed you by, that you weren't given a chance to be like the others.

I often wonder — many do, I suppose most do — when they see the disparity, when they see the wealth in our vast and magnificent land and when they hear people like you tell their stories and say $5 for laundry, $10 for gifts. Most of us here spend more than this without noticing it. Fully 40% or 45% of the people on general assistance are children, and unless you help the environment, you cannot do that. It's really shocking.

I have social difficulty in accepting. I want to wish the person well. I have immunity here, Chair. I know that Mr Stronach and others have been success stories in our relative terms. You turn around — and there's nothing wrong with giving incentives. We agree most people will say, "I pay too much in taxes." You give Stronach, because of your philosophy — I don't want his millions, I can do quite well, thank you. You give him more than $3 million extra a year. He made $38 million last year with bonus and salaries. He gets $3 million and you turn around and cut them by 21.6%. You call that a hand up and you want them to integrate. If we are as rich as the poorest link in our society — I mean, give me a break. You can't do that and get away with it. You will get away with it because it's easy to press the button, but you're developing a caste system.

You don't want to do this. You don't want to deliberately harm people. Maybe you will pray for them. Like you said, go back to the church. Are you annoyed when you see them with your very eyes, when the only thing separating us from a worse lot is our support system, a few dineros, dollars in our pockets and the ability to be with and like the others? Without a paycheque or supporting spouse, the family and the community unit, this is what the lot is for us.

The Chair: I'll have to interrupt you there, Mr Pouliot.

Mr Pouliot: I don't want an answer, but there is no need for this kind of attitude. People pay us the compliment of their visit. This is what it's all about. They have just as much right. We rolled out the red carpet for the bankers this morning. We rolled out the red carpet for Nesbitt Burns when they were selling us more Bre-X. But for the people who have nothing, they should apologize by virtue of being on the list? No, Monsieur.

The Chair: Thank you, Ms Tingley and Mr Seiler, for attending and for your time and your presentation.

1530

ONTARIO HOSPITAL ASSOCIATION

The Chair: The next presenter this afternoon is the Ontario Hospital Association, Messieurs MacKinnon and McKenzie. Gentlemen, welcome and thank you for attending.

Mr Geoffrey McKenzie: Thank you, Mr Chairman and members of the committee. My name is Geoffrey McKenzie. I'm the chair of the board of directors of the Ontario Hospital Association. With me is David MacKinnon, president of our association. On behalf of the OHA I want to thank you for this opportunity to speak with you today.

In my professional career I was the managing partner of a major management consulting firm, and therein lies my background in terms of my work experience. As a hospital trustee I have served as a board chair of the Riverdale Hospital and most recently on the board of the OHA. In both my professional and voluntary capacities I have learned a great deal about the complexities of health care and the problems facing hospitals and the many stakeholders that are involved in the current environment.

Over the past few years we at the OHA have observed and participated in many of the changes taking place in the health care sector and particularly in hospitals across the province. We have had the opportunity to study closely the results of those changes and the implications they have for the future delivery of health care in the province.

Based on our observations and widespread consultations with consumers, hospital boards, managers, physicians, nurses and other front-line staff, we've been able to assess the current situation and are now prepared to make recommendations for the future. We see this afternoon as an important opportunity to communicate to the Legislature our views and concerns in this regard.

We believe it is time to challenge conventional thinking and to move forward on an agenda which is based on reliable information which will deal with the real needs and expectations of the consumers of the province. We

have come to the conclusion that it is time to make some fundamental shifts in thinking about how health care should be delivered in the future. David MacKinnon will now make our presentation.

Mr David MacKinnon: Thank you very much, Mr Chairman, for the opportunity to come before the committee again. I recall our discussion last year and the very useful questioning that arose from it.

Since 1992 Ontario's hospitals have experienced a cumulative reduction of funding that's equivalent to nearly $1.8 billion after you consider population growth, inflation and the nominal cuts that have been made, which are slightly under half that amount. While these dollar savings, very significant savings, have been realized, they have come at a very high price. The public confidence in hospitals has deteriorated somewhat, and you'll see that in an attachment to our presentation that's being delivered to you. You will see that we have charted public confidence in the system over the years.

We believe it's now time to stabilize. The need for stabilization of the system is important. We think the government did recognize that with the deferral of the third year of cuts to hospitals announced in last year's budget and we're also pleased to say that the funds budgeted for restructuring are now helping in a very significant way.

But I'd like to go beyond our normal discussion and talk about why hospital issues are so prominent in the television news and in newspapers these days. Most of the news, we are aware, is troubling to taxpayers, and we certainly know it must be especially troubling to legislators who must act on their behalf. We would like to suggest a basic change in Ontario health care that would provide much better health services and significantly lower the decibel count.

The headlines we see relating to budgets, overcrowded emergency departments, long waiting lists and all the other issues are symptoms of a far deeper problem. They're symptoms. The real problem in Ontario is that over the past 15 years we, as have several other provinces, have with the best of intentions put in place fundamental health policies which are not rooted in evidence or fact.

Short-term funding fixes, the patience of consumers and the endurance of front-line staff have all shielded us from the effects of this problem for a very long time. But sooner or later we cannot function normally and the dam bursts. An accumulation of small problems can easily turn fundamentally flawed policies into a crisis. So what are the policies that cause us so much difficulty?

The key non-evidence-based policy is the transfer of care and funding from institutions to what is called "the community" in the language of the health care sector. Policymakers have felt, with little or no evidence, in our view, that consumers want this shift, that they are able to assume the additional burdens associated with it and that it will somehow lead to better or less expensive service. It is also assumed that this shift, which involves hundreds of thousands of people and hundreds of organizations, can readily be accomplished. It's almost as though we think that if we wave a wand long enough it will happen.

We're aware that our repudiation of a basic policy pursued over 15 years by governments of three different complexions may seem harsh. But we have been examining this issue most closely. No reasonably conclusive evidence exists to support this cornerstone policy of Ontario's health care system. I'd like to express this in more human terms.

In the pursuit of this policy over many years, we may have shifted a large number of mentally ill people to the streets and in some cases to prisons. Is this what we want?

Do we risk causing other problems as well? In our view we do. We risk causing TB outbreaks among the dispossessed and having innocent people pushed in front of subway trains, to cite just two examples.

We also run other risks. Can the women of the province, who carry much of the burden for this shift, assume new responsibilities at a time when very large numbers of them are caring for parents, children, jobs and homes, very often without the support of a spouse? Maybe they can, but we think not. Whether they can expect or be expected to do more is a very serious question that our society must soon answer.

There are further risks, some of them perhaps unexpected. In the last British election one of the parties included in its platform a promise to pay people to stay away from work to look after friends and relatives. I guarantee that serious requests for an extra billion or two for such a program here would cause quite a stir in the Frost Building, and yet we can almost expect them.

It can be argued, and it has been argued frequently, that all these problems can be avoided if we can find the budgets for additional community support, if we can put them in place in time, if the transition proceeds without a break of even half an hour, if it can be coordinated and if the doctors and the nurses and the front-line workers of all kinds don't buckle under the stress, and they are indeed stressed.

This list of ifs, a very incomplete list, is nevertheless a very large list. We argue that from where we stand now, several years into a major transition without a plan for that transition, it is in fact an impossible list from any practical point of view.

Our proposal is that this government must take a very different path. The people of Ontario have many billions of dollars invested in hospitals. They are, all our polling shows us, among the most valued of social institutions. They also have most of the managerial infrastructure in the health care system and are guided in their affairs by people from all parts of the community, many of them people of great distinction and accomplishment. Legislators should reinforce hospitals rather than weakening them through further budget cuts to support non-evidence-based transfers of their functions and services elsewhere. Hospitals can be used to integrate the health care system. We have clear proof that it is possible to broaden the role of hospital boards and to use hospitals in this way. The

proof is that in many parts of Ontario this is already under way.

One of the best examples is in Parry Sound. If you visit that community, you will find a hospital board that has broadened its functions to encompass a hospital, a nursing home, a community care access centre, air and surface ambulance services and a variety of other related programs. People have one-stop shopping for a very large number of health services in that community. They have it in many other communities in Ontario. Virtually all hospitals in Ontario are evolving in this direction today.

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We know that to break with 15 years of policy and to extend these models across the province is a very large task indeed. We know in particular that it needs a huge sense of partnership with the rest of the health care community, very genuine partnership that would demand as much of hospitals as it would of the others. New alliances would also be needed with the private sector, where many of the skills we will require for the future are located. I'll come back to that point.

Again, hospitals and other providers have put hundreds of these kinds of arrangements in place, enough to demonstrate that any model we can imagine can become reality because it is being practised somewhere in Ontario today.

In short, a new direction is open to us. Consumers can readily access a wide range of health services right on their doorstep. Services could be delivered in the workplace, at home or in institutions, with seamless boundaries among them. Costs could be avoided, because much greater flexibility becomes possible.

Gains would be possible in other areas. Physicians and nurses would be better supported. We are particularly conscious of the nursing issues. In any event, both groups are under rather severe pressure due to changes in the system around them. This kind of grouping of services would also provide increased support to other clinical and front-line staff in nursing homes, in mental health facilities and a whole variety of other aspects of the health care system.

I'd like to briefly cover one or two other areas. In the last few years, it has become apparent to hospital managers throughout the province that hospitals need to work together more effectively. OHA has adopted a new program with our members to achieve this goal. The most important new initiatives that we intend to implement are technological. The front door of every hospital should in part be based on the telephone, through telephone triage and the educational possibilities of the Internet.

We also want to put in place advanced telecommunications facilities to connect all hospitals with each other. Again, these steps may seem very abstract until you put them in human terms. But just imagine what it would be like in Ontario if the expertise of physicians and nurses in any one hospital could be delivered to all the others instantly. The barriers posed by our formidable geography would be reduced significantly.

Imagine also what it would mean to young, busy families to know that the skills of the nurse practitioners and the physicians at their community hospital can be accessed with only a telephone call. This also would relieve the pressure on overloaded departments. In fact, if I could ask you to remember only one word of my presentation today, it would be to remember the word "imagine." Imagine what we can do by grouping facilities. Imagine what we can do with telephone triage. Imagine what we can do by linking hospitals together so that the services of any one of them can be delivered through all the others.

I would like now to talk briefly about hospital budgets. The financial and operating conditions in hospitals are not nearly as stable as we would want. We also know that the combined cuts to hospitals since 1992 range up to 25%, taking nominal cuts of $800 million, inflation, population growth and population aging into consideration. By some measures, the final impact may be equivalent to cuts of $1.8 billion, as I mentioned in my opening comments, but the nominal cuts of course have been much less than that.

Today in the Ontario hospital system, a flat-line budget allocation is estimated to be a cut of approximately 4.5% by the time collective agreement grid movement, inflation, allowances for population growth and other similar factors are taken into consideration. So a flat-line budget for hospitals is in fact a significant cut. Translate this 4.5% across the hospital sector and it equates to approximately $250 million. These kinds of problems are causing growth in the consolidated deficit position of all Ontario hospitals.

Preliminary analysis of available hospital audited financial statements for 1995-96, for example, identified a consolidated deficit of $70.3 million. Analysis for 1996-97 found a consolidated deficit of $112.8 million, or a year-over-year increase of about 60%. Clearly, the system cannot withstand the pressure for long.

In short, we have run out of room. For many years, in the pursuit of policies based on evidence that was not present or present only to a very limited degree, we have introduced significant instability into one of the most important collections of health care skills and assets in North America. We believe that's a tragedy. It's especially tragic because if ever there was a sense of crisis induced by faulty policy not grounded in fundamental issues of finance or demographics or, most important, consumer preference, this is it.

It goes beyond this. Without the institutional changes I have suggested or others like them, we can only accommodate additional cuts by reducing services or accessibility or both. Those further cuts would come at some cost to the basic principles of the Canada Health Act. Hospitals and all their partners really hope that can be avoided. For that reason, I hope you will carefully consider the fundamental suggestions we have made today.

The Chair: We have approximately 12 minutes for questions, four per caucus. We start with the Liberal caucus.

Mr Gerard Kennedy (York South): Thank you for your presentation. We understand the very significant pressures that hospitals are under. That has been highlighted publicly in recent weeks, but we do know it has been going on for a period of time.

I really want to go to the thrust of your report. When you say "faulty policy," when you say that you perceive the remedy for the problem as very different from the direction the government is taking right now with the Health Services Restructuring Commission, that seems to be a very significant statement on your part. I wonder if you can elaborate on how urgent you think it is that the government reassess the policy direction we're going in right now and respond in the manner you've suggested.

Mr MacKinnon: It's important that we all think about that fundamental issue very differently. As I say, it goes back many years. However, there's no question that we feel a real sense of urgency. We believe we can do a whole lot that will involve much better delivery of health services, and we can do it in partnership with many others. We know we can, because in some communities in Ontario we are doing it today. I mentioned the Parry Sound example, but I could have mentioned 15 other communities.

We really need to move very quickly to build upon those established precedents. If we do, some of the worst problems can be avoided. If we don't, we think we're in for many more years of constant problems coming out of some unexpected directions in very unexpected ways.

Mr Kennedy: To be clear, you think if the commission continues the way it is, in terms of community services receiving funds that used to go to hospitals and so on and that they operate in separate spheres, you do see fundamental problems with that. Is that correct?

Mr MacKinnon: We see fundamental problems with continuing with that transition without either (a) fundamental evidence with respect to most of its principal directions or (b) understanding just how huge a project it is. This kind of restructuring, as I mentioned before, is like the Manhattan project. It's huge. It's one of the largest of its kind. The chances of being successful in continuing with it, given that we're several years into it without overall planning and are experiencing considerable difficulties, are quite low.

Mr Kennedy: You've also published other reports about the pressures on hospitals that support what you're saying. You've had the CIBC talk about finances, and the Richard Ivey School of Business talk about how that change is very difficult to do when the direction isn't clear and when it doesn't seem to make sense to some of the people in it.

I wonder if you'd talk a little about the cuts you've mentioned. Even this year, we've had $800 million in cuts that came after flat-lining. You're suggesting about 25% of the resources of hospitals have been removed over the years, and I guess most dramatically in the last two years, when it has lost $800 million. But you're suggesting that effectively hospitals face a shortfall of 4.5% just from normal pressures. Is that correct? In other words, even if the government doesn't implement the third year of cuts, which it has suspended temporarily, that is still a factor that will be pressuring hospitals to reduce service?

Mr MacKinnon: Yes. You have to add the 4.5% to any actual nominal cut to get the real impact. If, for example, we proceeded with the third-year cut of 8%, the effect of that cut would be equivalent to 12.5% — and choose any other percentage level.

1550

Mrs Boyd: Thank you for the presentation. I'm having a little difficulty visualizing exactly how you see this working. Do you see the hospitals as huge corporate structures that encompass under their direction all these various forms of health care?

Mr MacKinnon: No. We believe, as I hope it comes clear in my presentation, that the changes that would have to be made would be as transformational for hospitals as they would be for everybody else. However, the hospitals are the largest part of the infrastructure and are under the most extreme pressure at the moment. We believe that just given their size, integration of the health system probably cannot occur without their leadership, and we're willing to provide it. But any such idea that we have contemplated does depend upon serious transformation for everybody, including hospitals.

Mrs Boyd: I'm glad to hear that, because it didn't come out quite clearly that you also see hospitals transforming their mission. Much of what has been done in hospitals has been as little evidence-based as some of the decisions around home care. If we're talking about a rigorous subjecting of everything we do in the health care system to some evidence base, that is not something that people would generally disagree with, but I think they would want to see it happening right across the whole spectrum.

I agree with you. Sometimes the rhetoric makes it sound as though we don't need hospitals, acute care hospitals or hospitals for those who are chronically going to be experiencing either mental or physical health difficulties that require a very intensive kind of care, and that distresses me as well. It's almost as though we're going to suddenly change and do everything in another way when you listen to the rhetoric. I think you rightly point out that that's not going to help. I agree with you absolutely that expecting this huge change to be managed in the short period of time this government appears to have given it is unrealistic unless there are huge infusions of dollars to drive and lever that kind of change, and that obviously isn't the case.

Do you believe, however, that there is a place for health care organizations other than hospitals in a reconfigured system?

Mr MacKinnon: If you look at the Parry Sound case I mentioned, of course there are. There's a nursing home, there's the ambulance services, the community care access centre. They're all grouped under the one board, and the hospital board has transformed itself; it includes representation from those sectors to do it. Clearly those services are essential, but many of them can only be planned and

delivered locally, because the situation in each community of Ontario differs significantly in terms of the availability of any particular set of services.

Absolutely, our proposal — I think I emphasized it, but I emphasize it again — does depend upon partnership that would be every bit as demanding of us as it would be of others.

Mrs Boyd: But the Parry Sound example is a very difficult one, because the Parry Sound example was a hospital that was taken out of active acute service and all of that conglomeration of services that you talked about indeed did occur, and occurred under our government with our approval. This government has suddenly put acute care back into that picture when it wasn't there before, at the time that they're closing hospitals all over the rest of the province. It seems counter-rational, quite frankly, for a government that is closing hospitals all over the province to reopen the one hospital that was taken out of acute care services in the first place.

The Chair: You have time to answer, but you'll have to be brief.

Mr MacKinnon: All the cases have been challenging where we've created broadly structured health enterprises. Every single one of them in different ways has been a challenge. We don't underestimate that.

Mr Baird: Thank you very much for your presentation. I appreciate it. You've given us a lot to think about in our deliberations. I'm a new member here so I don't have the experience some members do, but I did find your presentation, appendix B, to be quite telling, where you looked at the number of beds staffed and in operation between 1987 and 1995, when my colleagues opposite were in government. We see that 10,000 beds closed; that was the solution. In my community that caused a lot of concern because we had a lot of shells that were sitting half-empty.

I look at the Queensway-Carleton Hospital in my riding, which I know is a member of your association. They have a number of beds being used as long-term-care beds, costing $200 or $400 a day for someone to live in a hospital where the quality of life isn't good. Would you not agree that the best solution would be to take those long-term-care beds out of the hospital and consolidate the other hospital services in those beds?

For example, they're building in my community a new long-term-care facility, Villa Marconi, with capital funding and licensing from the provincial government and operating moneys of more than $1 million a year; 60 new beds there. In long-term care, part of the $100 million reinvestment, $400,000 more is going towards one of the long-term-care facilities in Nepean. Would it not make sense to consolidate your services in that community hospital which is the backbone of the health care system and to free up that money to go into long-term-care facilities which might cost $100 to $125 a day, with a better quality of life for the patients?

Mr MacKinnon: As I emphasized in relation to the previous set of questions, a broader range of services other than those provided by hospitals is necessary and they have to be provided in partnership. But it's the speed of transition that's the real issue here. If you're taking money out and putting it into somebody else, you have deliberations of this committee, deliberations of the Legislature, deliberations of the ministry, the time required to scale up computer systems, the time required to hire new people and so on. So our analysis fundamentally is that the problem in part is how we're organizing that shift. If we can transform existing institutions, hospitals and group practices looming quite large, then it's much better because that shift will take place locally, as much as possible within organizations. That saves a huge amount of time and complexity and probably produces a better result.

Mr Baird: To be clear, how many hospitals have closed? Of your members, how many hospitals have closed to this point today? By my estimation, only one.

Mr MacKinnon: At the moment, you could count them on one hand.

Mr Baird: Just one.

Mr MacKinnon: It would be a very small number that have actually closed to date.

Mr Baird: I count just one, Pembroke; that's the only one. If those hospitals were to close and we consolidated the services and there wasn't the long-term-care money there, I'd be tremendously concerned, but the minister, to her credit, has been very clear that unless those communities supports, those long-term-care beds, are open we certainly wouldn't want to throw anyone out on the street. It will be our responsibility to ensure that there is a close mesh there, that those services are available with no gaps, because that would be a tremendously bad situation. It would just be more of what has happened in the past.

Mr MacKinnon: The issue is the complexity of that. The example I have used is that we have talked about arranging this shift almost as though if we wave a wand enough it will happen. But the restructuring of that kind across Ontario is one of the largest of its kind ever tried on the continent, and it won't just happen because our intentions are good. It happens for all the reasons I've mentioned, because literally tens of thousands of decisions have to be made by hundreds of different organizations representing tens of thousands of people. Our observation is that if we continue with that in the way in which we're proceeding, we will go into further difficulties of the kind we are experiencing. We believe there's a simple alternative and that we've demonstrated its practicality in many communities now, which makes that shift that you talk about much more straightforward and reduces the risk to the population.

Our observation is that we can integrate the system. We think we can provide the leadership to do that. If we do, that will be a much less difficult solution to the people of Ontario than would the present path of taking it out from one and putting it into another and relying on hundreds of intermediary stages of detail to go well.

The Chair: I am afraid we are out of time. I appreciate your presentation and your time here today, gentlemen. Thank you kindly.

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MADAWASKA HARDWOOD FLOORING

The Chair: The next presenter this afternoon will be from Madawaska Hardwood Flooring, Mr Ross Staples, president. Mr Staples, please come forward. Welcome, sir. Thank you for attending. Thank you for bringing the sheriff of Madawaska with you, Mr Jordan. Mr Jordan, nice to have you with us, sir. Please feel free to commence.

Mr Ross Staples: In many ways I'm surprised to be here today. Let me tell you why. In 1994, Madawaska Hardwood Flooring was the recipient of the Ontario Chamber of Commerce outstanding business achievement award. It was at that September 13, 1994, dinner in Toronto, attended by over 1,200 business leaders, including Mike Harris, that I first expressed my extreme disappointment with the NDP's unfair labour legislation. The following is a direct quote:

"On a sombre note, I want to talk about the terrible labour legislation that was introduced by the province of Ontario on January 1, 1993. Bill 40 is such an unfair act that it discourages companies from modernizing and expanding, thereby hindering the economic growth of the province."

I finished my talk by saying, "We are now asking ourselves, 'Why expand in Ontario?' particularly with the excellent opportunities that exist in New Hampshire, Vermont and upper New York state."

At that time, I decided to put a hold on all capital expenditures and product expansion plans. In fact, I had already started my investigation to relocate to the state of New Hampshire by having a breakfast meeting with Governor Steve Merrill and William Bartlett Jr, commissioner, Department of Resources and Economic Development. They showed a high level of interest in the Ontario business community.

On another occasion, September 20, 1996, at the McCarthy Tetrault employment and labour law client conference held in Toronto, with the keynote speaker being the Honourable Elizabeth Witmer, then the Minister of Labour, I told the following story:

"Had it not been for the election of the Mike Harris Conservative Party in Ontario, our company would have relocated lock, stock and barrel to the state of New Hampshire, taking with us 60 jobs and a great potential for expansion."

The prompt introduction of the new labour bill, Bill 7, and the program under the Common Sense Revolution made our decision to stay an easy one. Since their election, not only have we remained in beautiful Renfrew, Ontario, we have spent over $1 million in new capital expenditures, and with the assistance of Mayor Howie Haramis, town council and particularly the Renfrew Industrial Commission, we have purchased a 142,500-square-foot building, the vacant former Blue Bell plant.

Presently we are arranging financing to cover capital expenditures of approximately $5 million to install four new dry kilns, purchase a new, top-notch flooring pre-finishing line — and that commitment has already been made for that line — and install new production equipment. In addition, we are going to add a second shift, with most of the hardwood lumber coming from Ontario. The net effect on employment will be an initial increase of about 60 jobs, increasing from 60 to 120 employees.

I say without reservation that the election of the Progressive Conservative Party and their approach to governing has allowed our company to continue with its success and expand in a climate which encourages business to place its confidence and its investment dollars in this wonderful province of opportunity. The benefits of the Common Sense Revolution and Mr Harris's accomplishments were spelled out most effectively by William Thorsell, editor in chief of the Toronto Globe and Mail in his January 10, 1998, article. They include:

"A smaller proportion of Ontario's population is on welfare, and more people are working at lower unemployment rates.... And again this year, Ontario is set to lead national economic growth, along with Alberta.... Mr Harris is directly increasing the disposable income of Ontarians, with a clear bias towards lower-income people. His 22% provincial income tax cut (on the way to 30%) is highly progressive, taken together with the health-care levy he has applied to higher-income Ontarians. But it still lowers the net provincial income-tax burden on everyone, stimulating private consumption and all the benefits that flow from it.... deficit is falling faster than...promised, because of robust economic growth."

Added to the above are the reductions in health care and education costs and the amalgamation of numerous towns and cities.

These kinds of accomplishments have inspired business people to invest in the province of Ontario and produce more product here. More people pay taxes, to the benefit of everyone. Business people can't help but be impressed with the cost cutting that has taken place. In health care, the reduction of the number of hospital beds through closure of hospitals was the only way to free up money, to improve outpatient services and home care. Introduction of the new health cards will also eliminate duplication and non-Ontarians obtaining health services to which they are not entitled.

I encourage the government to continue with the following programs:

Tighten the student loan program to reduce the default rate, tie in reductions to the loan, but only when a student completes the program, and have the institutions whose graduates have high default rates share in the cost. The latter point is sound if institutions are providing an education where no jobs can be found.

Sell off social housing units, or at least part of the 84,000 now managed by the Ontario Housing Corp. I read recently that there are 1,864 units, mostly detached houses in working-class districts, not normally considered as public housing units.

Welfare and workfare: The reduction in what was an overgenerous welfare system was certainly warranted. I

have spoken to several people who have objected to these cutbacks. They included religious officers, social workers, teachers and doctors. Unfortunately, these people have never worked in a plant environment or had to hire unskilled workers.

Here is an example of what happened in our plant. I personally know these individuals. After the tightening up of the welfare program, we were visited by two members of our town's police force. They investigated three employees whose wives or girlfriends were collecting welfare. All three were breaking the law. One spent three months in jail, the second was fined $4,000 in back payments and the third got off the hook, not because she wasn't guilty; it was because her boyfriend was smart and lucky. His parents lived in our town, and he did not claim his live-in girlfriend as a dependant on our fringe-benefit program.

In another case, my wife's two nephews asked me for work. They had both quit school, got a job and gone on unemployment insurance, which was eventually exhausted. Hesitantly, we employed both. A number of months later, they both quit and went back on unemployment insurance. You guessed it, they were back at my door a year later, looking for a job. They only wanted to work when they had to. The reply was an easy one.

Another example is a letter to the editor that I read in our local newspaper which was highly critical of the government for their cutbacks to the welfare program. He talked about not being able to find a job, wanting to work, had tried hard to find employment and the like. That individual had a job in our company. He lasted one and a half days and then left without any word. The reason is probably, "If I can collect welfare, not have to get up in the morning and be able to watch the soaps in the afternoon, why work hard?"

I do not mean to imply that there are not legitimate cases where help is needed; there are, and by all means let's help them.

Workfare: There is much controversy about the program. The unions are dead set against it, and many in the non-profit sector are not supportive either, maybe because they have been threatened by unions withdrawing donations. I support the idea and I have promised Mayor Howie Haramis of Renfrew that when our new equipment arrives in July 1998 and we put on the second shift, we will work closely with the person in charge of workfare in our town. The only thing I ask is that they do the preliminary screening, and we will do the rest. We do not want to be subsidized, nor are we looking for any kind of assistance. Many of the 40-plus new jobs we'll be creating will involve non-skilled and inexperienced workers. The starting wage is $10 per hour, plus a sound fringe benefit program.

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Business grants should be discontinued. It is not only in the area of social policy that effective cost cutting should take place. It is not the responsibility of governments to bail out companies or to give grants to encourage them to build a plant or to modernize. If a business is not able to pay its way, it should close and allow that production to be produced and sold by other, more efficient operations. As far as general financing is concerned, companies should rely on labour-sponsored venture funds, banks, investment houses and angels to source their needs. Also, professional lobbying should be effectively controlled. Regulations should be imposed and enforced.

Areas the government should not support include the idea floated by a federal MP to have another national holiday, Heritage Day. We already have 10, which in most cases mean 10 days of lost production, never mind the cost of the days' pay. When I read about countries like France legislating a cut in the workweek of four hours, I can't believe they would consider such a stupid move, particularly with a global economy and with such a competitive environment. And they think this is going to solve the unemployment problem? Continue to do what you are doing and employment will increase.

One area the government should support is training in the high-tech area by encouraging students at the university and technical school level to register for science, computer, mathematics and electrical engineering degrees. Subsidizing tuition fees to the extent of 50%, provided the student completes the program and obtains a job in Canada for at least five years, is worth considering. Working with the schools to develop programs and build the infrastructure is probably the most necessary part of this program. Involving the high-tech companies in this endeavour will help to enhance its success.

On the business front, rather than grants to companies, improving infrastructure is the way to success. In our neck of the woods, four-laning the highway, without a median, from our part of Renfrew would be extremely beneficial. It would reduce the number of deaths on that part of the highway, as well as encourage other companies to locate to our town and take advantage of all we have to offer. Approximately 500 citizens commute daily to their place of work between the two towns. Also, there are many people commuting to both Kanata and Ottawa to work in the high-tech industry. This highway is the main transportation route for our industries shipping their product to eastern Ontario, Quebec, the United States, and by container to the pan-Pacific countries and Great Britain through the port of Montreal, and by train to the west coast. A few hundred more jobs, an increase in tourism and a more attractive place for seniors to live would be what is necessary to cure unemployment and expand our tax base.

Second, if airline flights out of Toronto which now fly to Pembroke were also to fly into Arnprior, this would be very helpful. It would cut travel time by an hour per return trip for a number of major employers in the area.

Future budgetary actions which, from a business point of view, would be beneficial:

(1) Put our fiscal house in order by concentrating our efforts on eliminating the $5.2-billion deficit and then attack with vigour our substantial debt. The $10 billion now paid in interest charges then could be used to enhance our quality of life and reduce taxes. Consideration should

be given to establishing firm targets that are enshrined in legislation so that elimination of the debt would become a commitment that could not be altered without a referendum.

(2) When one considers that the government, by the end of its present term, will have reduced or eliminated the deficit, reduced provincial taxes by 30%, cut welfare payments and enhanced employment, thereby appreciably meeting most of its major Common Sense Revolution targets, its next program should be debt reduction. Many of us may be willing to wait for the big payback once the $10 billion in interest charges is eliminated. The above should be accomplished without any increases in taxes.

(3) Encourage the federal government to utilize most of its forthcoming surplus to reducing their substantial debt also. Significantly increasing spending or tax cuts other than to low-income Canadians would be wrong. Any savings in interest could be used to help the poor.

In summary, we must encourage all walks of life to become more self-reliant. We must continue to promote user pay. It never ceases to amaze me how different levels of government are involved in a diverse group of handouts, subsidies, grants, support payments, student loans and the like. The cost to administer these programs must be astronomical. A better way may be to consider working with the federal government to determine the feasibility of introducing a guaranteed wage. We have sent an invitation to the Premier and are looking forward to his visiting Renfrew. We're depending on our member, Leo Jordan, to arrange it. I'd like to have his ear and express these comments personally. Thank you.

The Vice-Chair (Mr Wayne Wettlaufer): Thank you, Mr Staples, for your presentation. We have about three minutes per caucus left for questions. We'll start with the NDP.

Mr Pouliot: Thank you for your presentation, Mr Staples. You go beyond in privilege: You have a very good, long-standing member, by name of Leo Jordan. He certainly does care about the people he represents, and his track record speaks for itself.

When I began to assimilate and digest your brief, one of the questions that came to mind — I'll be candid — was, how long have you been a card-carrying member of the Progressive Conservative Party? You remained consistent in this promotion throughout your presentation, but in the latter stages you were perhaps searching for equilibrium, balance. In fact, at the last, before the "respectfully submitted," you talked about introducing a guaranteed wage, so I felt better that way. You talked about putting a second shift on, and that's an awful lot because we don't know how the next election will go.

You took a shot at unions. That's fair; I respect you and your opinions. If you start at $10 an hour, at 2,080 work hours, which constitute a designated workyear, that amounts to $20,800 per annum. I like unions, Mr Staples. It's very simple. To do similar work, if you belong to a union in the province of Ontario you get 20% more in wages and you get 17% more in fringe benefits — proven — for equal work. That's the reason I like unions, because I like to have more money in my pocket as opposed to less.

When you look at your summary of the tax cut on the one hand — and you like that; it creates incentive. And then I sense you're more adamant regarding the deficit. Shouldn't the government put more emphasis on the deficit rather than the tax cut so you can get to the debt quicker?

Mr Staples: Let me preface my comments by saying —

The Vice-Chair: Mr Staples, I know we would really love to have an answer to that question, but Mr Pouliot, as usual, has used up all the allotted time. We have to move now to the government caucus.

Mr Baird: Thank you very much for your presentation. I wanted to explore a few things but we've only got a few minutes, so I'll go to the first one.

You mentioned that Bill 40, in your opinion as a small business person, the only person who is going to create jobs and economic growth in our province, was a major disincentive to your maintaining your business operations here and indeed in a decision to expand here, but when it was repealed in Bill 7 in the fall of 1995, you decided not only to maintain your plant here but not to move to New Hampshire, where Governor Merrill was pushing you. You also said you were planning on reinvesting in new equipment sales. Can you expand on that?

Mr Staples: Yes. I felt that the labour legislation that was introduced in 1993 was antidemocratic — that wasn't good for the employees, in my opinion, and it wasn't good for the company — where you had employees who disagreed with unionism and they were not allowed to cross picket lines, where there were no secret votes. I just thought that was very, very unfair.

I might point out I had never worked in a plant that was not unionized until I bought Madawaska Hardwood Flooring. My previous 34 years in the business world involved nothing but unionized plants, and let me make it perfectly clear: I have a lot of respect for most unions. What I'm objecting to is the legislation. With regard to the wages we pay, that $20,000 is the minimum for sweeping the floor. There are very few people in our plant today who are not making better than $25,000 a year and have a 35% fringe benefit program. Just give us a level playing field, that's all I ask for, and then we'll take it from there and we'll create the jobs.

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Mr Baird: I did notice in your presentation that four-laning Highway 17 without a median from Arnprior to Renfrew would be extremely beneficial. I tried to remember where I'd heard that before and then I realized I had heard it from Leo Jordan on probably half a dozen occasions in the last year alone.

Mr Staples: I've been prompting him frequently.

Mr Baird: He's certainly prompting us and the government.

Mr Staples: That would be very beneficial, seriously; it really would be. Sixty per cent of our product is exported and most of it's got to go by that highway.

Mr Baird: A lot of traffic goes between the west end of the region of Ottawa-Carleton and the upper valley there.

Mr Staples: Yes, and all of our container shipments are going into Montreal. We ship into China, Singapore, Malaysia, Hong Kong. From that point of view, eight or nine companies in Renfrew would very much benefit from that.

The Vice-Chair: If there are no further questions from the government caucus, we'll move to the Liberal Party.

Mr Phillips: We appreciate your presentation. I too was a business person. I had 300 employees or so, so I've got a little bit of appreciation of the challenges.

One of your recommendations here is that you're suggesting the federal government shouldn't be looking at tax cuts other than to low-income Canadians. The provincial government tax cut meant that the total cost of the tax cut to people making more than a quarter of a million dollars a year, $250,000, was $500 million. So the provincial government has gone in a little bit opposite direction from your recommendation by having a tax cut where $500 million of the tax cut went to people making more than a quarter of a million dollars. Is that a good idea, from your perspective? I suspect from your recommendation here that you would have said it should have focused on low-income people.

Mr Staples: I accept the 30% tax cut, but I think that should be the maximum. Eliminate the deficit and then any money that's generated should go towards reducing the debt and not further tax cuts.

Mr Phillips: We've had quite a few business people in who would disagree with you on that, if I may, in that one business group said we should take the small business taxes down by $50,000, move it from $200,000 to $400,000 and have the small business rate on that. Another business group suggested six or seven different programs that we should look at, faster capital cost appreciation and things like that. So again, not all business groups are in agreement with you. You say focus on the deficit and debt; other groups are saying, "No, we think you should be spending money now on helping business out." Are you in disagreement with some of those business groups that are recommending that we should be looking at some ways of helping business out now?

Mr Staples: Yes, I am. My attitude, and I tried to state that, is that we have to become more self-reliant. We always go to the trough. I don't care if it's business or individuals or associations, we all want something for nothing. I'm saying it's about time we say no and that we'd better learn to operate our businesses and pay our own way and stop expecting governments or anybody else to pay our way. If I'm not a good enough businessman to make the kinds of returns we are making, then I should do something else with my life. I feel very strongly about that, sir.

Mr Phillips: I appreciate that. Just to summarize your views then, you would just say the tax cut should be for those low-income people who really need it and that we shouldn't have been — well, "shouldn't have been." The cat's kind of out, although this budget there will be another cut in taxes of $150 million to people who are making more than a quarter of a million dollars a year. Do you think the government should still proceed with that cut for people making more than a quarter of a million dollars a year?

Mr Staples: I guess my thought was that what has been announced and what's done is done, and from this moment on I don't think there should be a tax cut granted to any of us other than low-income people.

Mr Phillips: Thank you. That's very helpful.

The Vice-Chair: Thank you, Mr Staples. I appreciate it.

CANADIAN FILM AND TELEVISION PRODUCTION ASSOCIATION

The Vice-Chair: Our next presenters are from the Canadian Film and Television Production Association. The names I have here are Elizabeth McDonald, president and CEO; Robert Pattillo, government relations; and Steve Ord, tax committee. Please introduce yourselves for the record. You can begin at any time.

Ms Elizabeth McDonald: Mr Chairman, members of the committee, my name is Elizabeth McDonald and I am the president and CEO of the Canadian Film and Television Production Association. With me today is Mr. Steve Ord, senior vice-president and general manager, Atlantis Films. Mr Ord represents one of Ontario's most significant production entities, with its head office here in Toronto. Atlantis is one of the most active members of the association's Ontario producers panel.

Our association is the national trade association that represents the interests of over 300 independent producers that operate in every region of Canada. The reason we are here to address issues of particular relevance to our Ontario-based membership today relates directly to the fact that Ontario remains the most significant region in the country, both in terms of volume of production and job creation.

Mr Steve Ord: On February 13, 1996, I appeared along with other members of the CFTPA's Ontario producers panel before this same committee asking that you recommend to this government the establishment of a refundable tax credit for the Ontario production industry. At that time we underlined the fact that the previous OFIP program had been quite effective. We acknowledged that Ontario's current fiscal situation had created a situation where the industry would have to be flexible and work with the government to identify new approaches to encourage Ontario-based production companies to do business in this province.

On May 7, the government of Ontario responded positively to our proposal and announced the establishment of the Ontario film and television tax credit. Subsequently, in its second budget, on May 8, 1997, the government announced plans to increase the rate of the OFTTC, as it is called, by 5%, along with special incentives targeted to the animation sector of our industry.

In making our proposals, we had suggested that establishing a refundable tax credit regime would have a number of positive benefits for both the province and the industry. This has proven to be true. In 1996, the year the full impact of the cancellation of the OFIP program was felt, the volume of domestic production fell to $277 million. The raw numbers for 1997, the first year that the OFTTC program has been in place, indicates that the volume of domestic production activity has increased significantly, to $414 million. This proves that ongoing support for the film and television industry in Ontario ensures that we will be able to continue to make our outstanding contribution to the overall economic growth of the province.

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CFTPA's Ontario members have welcomed both of these announcements enthusiastically. Based on the amount of production activity in Ontario over the past year, as well as the plans our members already have in place for the forthcoming production year, we believe that the introduction and enrichment of the OFTTC was sound public policy for Ontario in both industrial and cultural terms. They ensured that the production infrastructure in Ontario would continue to expand. Not only was this of benefit to the larger production companies like Alliance and Atlantis, but it guaranteed that small and medium-sized production companies would be able to grow in Ontario.

Beyond coming here to thank you and all the members of this government for continuing support of this industry, we have a significant concern that we would like to raise. In November 1997 the Ontario government announced its plans to create the Ontario film and television production services tax credit. The goal of this program was stated quite clearly: to enhance Ontario's competitive advantage in film and television production. We understand the attraction of fostering foreign investment in our industry. At the same time, however, we want to be assured that the primary focus of any government programs or policies targeted at our sector are for businesses committed to staying in Ontario. Our collective goal must be to foster the growth of an indigenous industry. This is the only sensible industrial strategy. It is the smartest long-term job creation strategy. We must encourage the commitment of companies like Alliance or Atlantis that have longer-term objectives that reach beyond the immediate attraction of access to a cheap labour pool because of the present fluctuations of the Canadian dollar.

Ms McDonald: Mr Chairman, members of the committee, we have come to you with two recommendations for your consideration today. First, when Mr Eves announced the creation of the Ontario production services tax credit, he also stated that this government intended to consult with the federal government regarding the 48% cap on qualifying labour expenditures for the domestic film and television tax credit. We believe the time has come to remove the cap altogether and replace it with one simple calculation, a percentage of Ontario eligible labour. This would create a level playing field for Ontario-based companies operating alongside the foreign production companies developing projects here. It would also make Ontario competitive with other provinces such as British Columbia and Quebec, which have established very attractive tax credit programs to encourage production companies to film in their provinces.

Second, when the Ontario refundable tax credit program was originally established, access was limited to those productions that have the highest levels of Canadian content as measured by the federal government's 10-point program. Technically speaking, these were CAVCO, which is, for your benefit, the Canadian Audio-Visual Certification Office, certified Ontario productions, that received a minimum of eight out 10, to a maximum of 10 out of 10, Canadian content points.

At the time, this approach made sense, but with the recent establishment of the production services tax credit for foreign productions plus the aggressive nature of some of the tax credit programs established in other provinces, this limitation has created orphans in terms of Ontario-based productions. By extending the program to these types of productions, it would guarantee that the OFTTC would maximize the opportunities for production activity created and controlled by Ontario-based companies.

On that basis, we would recommend that this government expand the criteria for eligible productions for the Ontario refundable tax credit program for the film and television industry to permit access by those CAVCO-certified Ontario productions that achieve a minimum of six out of 10 Canadian content points.

When we appeared before you in 1996, we underlined the fact that stimulating activity in an Ontario-based film and television industry would provide a net benefit to the province in terms of both investment and jobs. We spoke to you about working as partners to create an environment that would allow companies like Atlantis to create jobs and stimulate innovation and economic activity in Ontario. Today's recommendations are based on those same principles and objectives. They are merely enhancements to an already existing and successful program for the domestic film and television industry that is working. We believe that if our recommendations are accepted, they will bring some balance to the incentives recently put in place to benefit foreign interests operating in this province.

Finally, while this is a program that generally works on all fronts, one of our goals is to continue to work in partnership with the Ontario government to simplify and reduce the administrative burden that is presently encumbering the federal refundable tax credit program. There is a real opportunity for the Ontario government to take the lead in this type of initiative.

We have decided not to go for the whole half-hour and to leave some time for questioning. Thank you for your attention this afternoon. We would be happy to answer any of your questions.

The Chair: We have approximately seven and a half minutes per caucus, and I'll start with the government caucus.

Mr Baird: Thank you very much for your presentation this afternoon and the time you took to put it together. I have certainly taken note, as I think all members have, of the two recommendations you made for this year's budget, and they are ones that I think merit a considerable amount of consideration on the government's part. We'll certainly reflect on them and get a better sense of what sort of effect they would have on the economy.

I did want to ask you about the reforms and the tax credits that were brought in and changed in last year's budget and the year before, to try to get a sense of how effective they were to the goal. You mentioned on page 10 of your presentation that the industry is looking to find a way through the tax regime of providing a net benefit to the province in terms of both investment and jobs. That's very much along the lines all three parties want.

I'm not from the Metro Toronto area — in fact, I'm not from this area at all; I'm from eastern Ontario — but I am constantly amazed even when I walk around Queen's Park. You'll see productions taking place right here in the building or right on Ontario government property. Just on the weekend, in front of Osgoode Hall there was the big hammer and sickle, a red flag hanging from Osgoode Hall. I was a bit startled to see it and then I wasn't startled; I realized that no, it was actually a movie and it wasn't reality.

Wherever you go around the downtown core on any given day, inevitably you will find a production taking place. I'm just startled at the number of jobs I have seen, even in just a 10-block radius of this place, whether it's at the University of Toronto campus or between here and Bay Street.

Can you give the committee a sense of the effectiveness, in terms of both investment in job creation and in supporting your industry by means of the tax system, the last change and the subsequent amendment to that change had for your industry so we could have an appreciation?

Ms McDonald: I think I'll start and let Steve finish. I have here a profile — I gave copies to the clerk — for 1998. It generally reflects, of course, numbers before 1998. In our oral remarks we talked about the fact that in 1996, when the OFIP program was frozen and there was nothing to replace it, the volume of production fell to about $277 million. In 1997 the raw numbers are telling us $414 million. Considering that at least 55% of all production budgets is spent directly on labour, and then it goes up to about 75% when you consider the indirect impact, when you have a drop like that you can clearly see that production activity affects jobs and affects the number of jobs.

In this profile you'll note that we found for this year, this was the first time in 10 years we reported flat growth in terms of jobs and we couldn't figure out why. We started looking back and realized that these numbers do not reflect the 1997 activity in Ontario but the 1996 activity, and when you take a program like OFIP out and before you replace it with the Ontario tax credit, that has a dramatic effect, so we stayed at the same level of activity. We already know that our 1999 profile, which we'll really talk about the year before that, will reflect an incredible growth in Ontario. So it's not only what you're seeing; in fact, it's what we can actually tell you is happening. When Ontario steps away, then our ability to create jobs in Canada is severely impaired, because this is the most significant province and it has been steady in that way.

Mr Ord: I think you have raised a couple of good points and good questions. It is a very labour-intensive business. As Elizabeth was saying, roughly 60% of the costs are labour costs. It's not an industry of buying machines; it's an industry of buying very skilled technical and creative labour. There's this very rough rule of thumb that every film shoot that shows up and blocks traffic and uses the U of T and all that typically is hiring directly about 100 people who come to work every day on that show, not counting the people who are building sets and costumes and those types of things that would be contracted out to other companies. It's very labour-intensive and it's terrific for jobs. It has one flaw, which is that it's very mobile.

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I think the changes announced last year have been very helpful in finding ways not only to keep all that production in Ontario but to keep building it here. Toronto is the third-largest producing centre in North America after Los Angeles, New York and Toronto. Vancouver is probably fourth. It is an area where our province has a huge, competitive advantage. One of the problems with the initial program that was rectified was that there were, for example, caps on how much an individual production could access through the tax system. The way I look at it is that my job at Atlantis is to find ways to finance these television programs. I'd rather come to work in the morning and figure out how to finance a show and do it in our backyard than come to the office in the morning and try and figure out how to move that to British Columbia or Nova Scotia to try to find the last 3% or 4% of the money that would make the difference as to where something goes. I think that was very sound public policy. I can tell you from our own experience that in 1997 we produced more television in Ontario than we have ever done in our history. It's something we're very proud of. We like to produce in our own province.

Mr Baird: Our job as legislators will be to hear what folks have said before the committee, to reflect on it and make recommendations to the government. A conclusion you would draw is that the Ontario film and television tax credit was, not the only factor, of course, but a big factor in the $120-million or $130-million increase year over year in terms of investment, in job creation?

Mr Ord: Absolutely. No question.

Ms McDonald: I think Steve and I have appeared together too often. I was going to say "absolutely" as well.

The other thing you have to look at is what has happened in other provinces. About two or three years ago Alberta shut down their Alberta Motion Picture Development Corp and took away all their support. Now Mr Klein is desperately looking to put in a tax credit for Alberta because he was told the industry would leave. He thought

they would stay anyway and there's hardly any production industry in Alberta. It has all gone to British Columbia or Ontario.

One of the important things about the first tax credit program of this government was that it solidified Ontario-based companies. That's one of the important messages. While we understand the government's need to compete with other provinces in terms of foreign producers, what we are concerned with is that Ontario-based production companies continue not only to exist but to thrive. Certainly, that's what that tax credit program allowed to take place. If you hadn't put it in, I suggest to you they would have gone to Quebec, they would have gone to Nova Scotia, they would have gone to New Brunswick, which is booming. Our report shows the activity in the Atlantic a year ago. We were talking to somebody on our board who is associated with one of the banks who said it has doubled and tripled from what we're saying here. All of that is because of tax credit programs. Clearly it's good for Ontarians.

Mr Ord: The other thing I think is a very important message to leave is that our sector is in the export sector. If you take Atlantis as an example, we earn money from selling or licensing our shows to broadcasters. Last year 89% of our licensee revenue came from outside of Canada, only 11% from Canada; the US was about half and international outside the US was the other half. I think from a public policy point of view what's good about our sector is that instead of just exporting dollars out of the country for other people's shows, by making shows here and exporting our shows out of the country, dollars come into our country and we make jobs out of those dollars. So it is very much a commonsense industry from that point of view, because the economics are so labour-intensive that it has been good for the economy.

Mr Kwinter: As always, I am very supportive of your industry. As Mr Baird said, the fruits of your labour are seen in the streets in Toronto almost every day.

It seems to me that the tax regime is only part of it. Skilled labour at reasonable prices and post-production facilities are also a real attraction to these production companies. How do we stack up against these other jurisdictions you're talking about like New Brunswick, BC or Nova Scotia? It would seem to me that it's one thing to be able to give a tax incentive, which doesn't require anything other than a policy decision, and it's another thing to build up that post-production infrastructure, that technical capability, so that producers have a comfort level that they can produce world-quality programs. Do you have a comment on that?

Ms McDonald: I'll take the first part and I'll let Steve take the second.

I think the Ontario labour force stands up quite well. To date, a lot of the training is done in cooperation with the community colleges and the industry itself, and there has been a large input from the federal government. Clearly, as the training in human resources activities devolves to the provinces, we'll be doing training programs on a provincial basis. We're already actively speaking with the Ontario government. It's the most active.

Another important factor is how calm we can keep the labour front. We're going into a set of very important labour negotiations with the major unions, including the performers' union. British Columbia is clearly, particularly at this time of year, an attractive place to work. It's a very difficult labour environment and the government has done very little to discourage that. Now, even though the dollar's low and they do have a tax credit program, there are productions that are choosing to go other places because it's almost an impossible labour situation.

We have a concern, as we put incentives in for the US-based industry, that some of those labour problems that came from LA and went directly to Vancouver could start coming into Ontario. Not that we don't want to see Ontario unionize workers, work and be well paid and have decent conditions of work. That is not the issue. What's happening in British Columbia is that people are choosing now not to work there because of the labour environment. We're willing to work with our partners in the labour unions, but it has to be one where we hope the government will help to keep both sides on it. We're expecting a difficult set of negotiations this year. We're worried about the influence that the US production industry might bring here, because it really has poisoned the environment in BC.

Mr Ord: I think our colleges and universities turn out excellent people — Sheridan College in the animation area. I see a lot of résumés through the course of a year and I'm always astonished, when I look at those résumés, at how many people have actually studied film and television, whether it be Ryerson or York University or Sheridan, and I think that's good. Things that have been very helpful for growth are a steady financial environment. It's already a very cyclical business, or can be, so to try to at least keep it as stable as possible is important.

On the labour side, it is a competitive industry and every little problem that occurs in Canada gets loudly advertised and exaggerated in the US, because whether it's Florida or California, people are always looking to find a problem with Canada, to kind of badmouth Canada. BC has been hurt by that, no question. I think stable labour relations are key because just a little problem turns out to be a big problem when you read about it in the trades, so that is a concern.

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Mr Kwinter: I would imagine the Canadian dollar doesn't hurt you in attracting investment here and production here.

Ms McDonald: Could I just interject?

Mr Kwinter: Sure.

Ms McDonald: The Canadian dollar certainly has created economic activity, but I think we have to be careful because that creates the activity of people who aren't building businesses here. They'll be here, they'll be in Mexico if the peso goes down further, they'll work wherever the currency is attractive and there's a well-established labour pool.

Part of what we're trying to say is we want to see companies like Atlantis, like Owl, like Breakthrough that creates Dudley the Dragon and other programs continue to thrive — Sound Venture in Ottawa, which is a regional producer, S&S Productions in Hamilton, all of those companies that are creating jobs in Ontario but are committed to staying in Ontario with the Canadian dollar. You're right, but we're talking about a long-term strategic view that ensures the Canadian-based industry will continue to be here regardless of the dollar.

Mr Kwinter: One of the other things I've asked a couple of the presenters about and I haven't got any response — people are kind of concerned about it but haven't really done anything about it — is the MAI, the Multilateral Agreement on Investment, which will have, depending on where Canada goes with it, a direct impact on levelling the playing field for everybody and could have an impact on what you're doing. Has your industry made any representations to the federal government on that and what is your position?

Ms McDonald: Yes, we've been very active. We did a parliamentary blitz two weeks ago and the MAI was the main part of it. We've talked to Minister Marchi a number of times. We are active on that front and tried to maintain the cultural exemption.

Mr Pouliot: Welcome. In 1997 it was your best year ever. Is that accurate?

Mr Ord: I think that would be correct, yes.

Mr Pouliot: How is 1998 shaping up?

Mr Ord: I think 1998 is going to be like 1997 and a little better. The Ontario government sent out very strong signals and I think those have been heard. The company I work for, Atlantis, but others, are establishing our production plans now. What we will do in the next month or two will determine what we do for the year so it's a critical time.

Mr Pouliot: That's good news indeed.

You mentioned, grosso modo, some 60% labour incentive. In terms of the spinoff, could you give us an indication of where the spinoffs occur? What contribution do you make to Ontario's economy?

Ms McDonald: It's a $2.8-billion industry and the volume of activity in Ontario is about — I'll take off my glasses — $1.3 billion. So the majority of that activity takes place in Ontario and the majority of the job creation takes place in Ontario.

Mr Ord: Keep in mind that Ontario offers full-service post-production, labs, sound facilities. The special effects companies that are in Ontario are in my view better than the companies in Los Angeles, far more competitive, so there are a lot of good things on the infrastructure side. Really, other than importing some actors, there's not a real need to send money outside the province.

Mr Pouliot: You mentioned in your presentation that the mere perception — there are some potential unstable situations vis-à-vis the labour front, for instance, that these can take on extraordinary proportions. Yet in the first part of your presentation you mentioned that both British Columbia and Quebec had further incentives that make them perhaps more competitive. What is the difference between the incentives that are presently offered here in Ontario and those offered, as per your presentation, in both sister provinces?

Ms McDonald: BC has just introduced a program and they've done it to actually try to maintain production in that province because they are starting to get people pulling away. The British Columbia program is actually only coming into effect on April 1. The Quebec program recovers about 33% to 45% of eligible labour expenses incurred by Quebec production companies in the production of certified Quebec film or TV programs.

Mr Ord: So in Quebec you're comparing 20% of labour to a floor of 33% and up. It is more.

Ms McDonald: The BC one — I'm trying to remember this — is a two-level one. There's one for the domestic industry and one for the foreign production that takes place there. A further incentive for people who work outside the zone, which I learned when I was in Vancouver, for the announcement of their tax credit is in the Vancouver area. So you do very well if you're doing production in the Okanagan.

The Chair: Thank you, Ms McDonald, for your presentation and for your time. We appreciate it.

ITAC ONTARIO

The Chair: The next presentation this afternoon is ITAC. We have with us Mr Bowden and Mr Petrie. Welcome, gentlemen.

Mr Bill Petrie: We have a presentation that's in the folder which we've handed out, and we'll go through this if you'd like to follow along behind.

ITAC Ontario represents the information technology industry in Ontario. Our sector, the IT sector, is the second-largest industrial sector behind automotive. We have sales of about $36 billion. We employ about a quarter of a million people. We have exports of $17 billion and are growing at about 12% per annum. The average size of a firm in this sector is around 20 employees. They range anywhere from mom-and-pop shops up to the big IBMs, but your typical firm has about 20 employees, and small firms like that are growing at about 40% per annum and are very export oriented. They're niche firms.

ITAC Ontario has been working with the Ontario government to lower costs and improve service. We've tried to form constructive relationships with this government. Our public sector business committee advises the government on use of information technology. We're working on procurement issues such as how the government should buy and use computers to become more efficient. We've worked with them on year 2000 conversions, and I'm happy to say that on that issue the Ontario government is off the sick list; they're actually doing a pretty good job. We're working with the government on its computing strategy.

We're also partnering in the design of smart systems for health with the provider community and the Ministry

of Health. The smart systems will reduce health costs while improving service. It will save hundreds of millions of dollars that the Ontario government wants to reinvest in health care. This is a unique effort, that the government has actually forged a partnership between industry, users and the ministry to cooperatively design a system. This hasn't been done anywhere else in the world. The results are already showing. As far as automating health care and introducing IT to health care, we're light-years ahead of anywhere else in the world and the results have been excellent.

The main problem facing us is a skills crisis. There are an estimated 30,000 jobs going begging right now in Ontario. We're working with high schools to improve technology and introduce youth to the opportunity in the industry. We've taken two high schools — Emery in the Jane-Finch corridor and Parkdale — and we're working with them to introduce computers. We're sending in mentors and speakers. We want to develop a model which we can start to move across Toronto and the province. We're working with a bunch of organizations to do that.

We're working to better link colleges and universities to industry and we've also developed a strategic plan for the sector to help the government create systemic change that will be acceptable to all parties.

Our stance is that the government has to eliminate the deficit and reduce personal taxes to make Ontario competitive. We are experiencing a significant brain drain. Half the University of Waterloo class and 75% of the Sheridan College class is going to the States. I've had an American headhunter come up here and tell me he's taken 1,000 people out of Ontario this year. The Americans have half a million vacant jobs, so they're coming up here. So the personal tax issue has been good.

The 1997 budget was good news for our industry. The repeal of the 5/15 royalty surcharge produced a tremendous boost for our industry. It has led to millions of dollars worth of investment. The university challenge fund to retain professors here was a welcome thing. The brain drain from the universities is frightful because that really has an impact on the skilled labour shortage, and the challenge fund was a way of addressing that.

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The Ontario business research tax credit encouraging investment in universities was far-reaching.

The simplification of the retail sales tax to software, where it's simply being charged on packaged software, while controversial, was accepted.

Our recommendation for budget 1998 is to stay the course. We're growing at 12%, so we are basically happy and we're creating a lot of jobs. We need to continue to make Ontario globally competitive. We also have to enhance the environment in which we all live. Our industry recognizes that we still require prioritization of spending and the enhancement of the efficiency of government.

Ontarians believe that deficit reduction, health care and education are priorities, and our industry supports this view. We support investment in health care and education in order to preserve our quality of life and our global competitiveness.

If we have concerns, our concerns centre on Toronto. About half the Ontario industry is here. We're concerned about Toronto's fiscal condition. Toronto has unique social spending needs due to migration and the number of poor who come into the city. Business cannot neglect its social obligations. We look at high business taxes in Toronto which threaten the industrial base of the economy. However, we see that municipal mergers represent an opportunity to reduce waste, and the savings can be directed to areas of social need.

Again, we want to continue our theme of partnership. We're working with this government on a number of areas. We want to work with municipal government and other business groups to find savings. We believe they can be found. We want an infrastructure that supports the creation of jobs and opportunity by attracting business investment.

In conclusion, we've worked in partnership with this government on a number of issues. We want to continue to work in a constructive manner to help this government achieve its objectives. We're cognizant of our obligations as citizens of a great province.

Information technology is Ontario's premier generator of good jobs as well as an enabler for more efficient government. All Ontario's people win with the prosperity of the information technology sector. Not only is it a creator of jobs but it is a saviour and an enabler of other sectors as well. We just heard that from our friends here in the movie industry, how IT is helping revolutionize that sector with such things as multimedia.

The Chair: Thank you, sir. We have approximately seven minutes per caucus.

Mr Kwinter: I'm very interested in this industry because I think it is the future. No one else is going to be able to really prosper without interfacing with information technology.

Having said that, I'm really concerned about the issue of the skills crisis. It seems to me that a lot of lip-service has been given to it but there really isn't an effective program in place to address it. Compounding that, of course, is the fact that there are US headhunters who are skimming off the cream of the crop to begin with anyway. Could you respond to that?

Mr Petrie: It's a vastly complex issue. I like to think that we, in all our wisdom, have all the answers. We've discussed this thing to death. I just met with my human resources committee today, and it's a vastly complex issue.

We are doing point programs such as setting up a computer database to link colleges and universities and industry, and we're working with some high schools and blah, blah, blah. These are Band-Aids, but we're trying to create models of cooperation that can be used and expanded throughout the province. We're working very closely with other sister associations.

We have looked at the model we used in the program management office of health. That is where this

government brought together the affected parties. In this case it would be colleges, universities, student groups, industry and government. Guys, we all know what the problems are. When you put a hundred industry people into a room, everyone's in violent agreement; everyone gets emotional. We all know what the problems are, but they're so complex. This is not a simple thing. We're talking about massive systemic change.

This problem has been going on for 30 years. It's not something that has crept up on us. The Premier's Council report in 1987 identified it as a crisis. We now have to tackle it. How we have advocated tackling it is taking the top people from the different sectors — from universities, colleges and industry — putting them in an office, giving them a deadline, nine months, looking at what's being done today to solve the problem, looking at the studies that are being done and giving them a time deadline to come up with recommendations. We look at this office as being the start of a process of change that will create real systemic change.

The key issue is who pays. The government doesn't have any money and students claim they're broke. We have some theories on that. But when we talk about systemic change, we feel the methodology we've used in health can apply to education. We've been advocating this and the government is picking up on it. But we're putting together immediately some point programs that would go a long way, if expanded throughout the province, to solving the problem.

Mr Stuart Bowden: At the risk of oversimplifying, when I went to school it was reading, writing and arithmetic. It was a rhyme that was taught through a hickory stick. Perhaps what needs to be added as far as long-term systemic change is a vision where information technology forms part of that basic fundamental change in our society. Education is the cornerstone to our success in the future and of our wellbeing. The Band-Aids are important in the short run, but we also have to form a long-run vision. We have to invest those tax dollars in those ways. That is something that we as an industry consider important.

Mr Kwinter: I'm glad you brought up the Premier's Council report of 1987. I was the vice-chair of the Premier's Council.

Mr Petrie: Yes. It was a good report.

Mr Kwinter: It was an excellent report, and that's the reason I'm so disturbed, because that was 10 years ago. The problem of the knowledge-based economy was identified. There were lots of recommendations by some very prominent people who thought they had the answer, and here 11 years later we're still talking about the issue and people are still not coming to terms with it.

Mr Bowden: I think if you look at that time — I can remember starting in this industry over 12 years ago, and software was the glint in someone's eye. I'm from the software side, as opposed to hardware. There is a critical mass momentum that has occurred. If I can make an observation, when I entered the industry, you taught yourself as a businessperson. Today we have graduates coming from colleges and universities. There is positive progression. It has taken a great deal of time and a great deal of money and investment.

Schools now are starting to have some computers in classrooms, but we need to find the momentum and the resources to ensure that when those kids get to grade 1, they have access to that technology or some form of that technology so they're up and running and using the stuff. These kids are not afraid. My children are not afraid of technology, and I presume my grandchildren will be there. It will take time, but what we have to do is have a vision and move forward on that vision. We have to communicate that vision and then basically measure ourselves against it, and measure ourselves responsibly. Industry can help.

Mr Petrie: I would say one thing in that the Premier's Council report came out in 1987. If you look at Ireland in 1987, they were the basket case of Europe, but they embarked on no less than a Marshall Plan to re-educate the population. They poured everything into universities, training and IT. My next-door neighbour, who left Ireland 10 years ago, said it was a basket case. His father hadn't worked for 20 years. Now Ireland is growing at a compounded rate of 12%, the fastest of any western industrialized nation and as fast as almost any nation in Asia. Its median income has gone from the bottom of Europe to now above average, and it's still growing at 12% or 13%. But it took a concerted national effort.

I think the political will to tackle this issue wasn't there from 1987 to 1990 under Peterson; it wasn't there in 1990 to 1995, because the issue wasn't staring us in the face. But unfortunately, there is no easy solution. A wise man only understands the depth of the problems.

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We're trying to build the political will to tackle it. I think the political will will come; I'm very optimistic. I think a cooperative, dedicated venture is going to be required to pull it off. I don't think the Ministry of Education, ITAC Ontario, the universities and colleges on their own can solve this problem. I don't think the horsepower exists, certainly not within us. But working together, I think we can. We're trying to build those linkages now at ITAC Ontario and we're alerting the government. We're optimistic something is going to happen.

Certainly we've talked to your leader about it as well. He's amenable; Dalton McGuinty sees this as an issue as well. It's starting to bubble up in all the parties. So there's great optimism here.

The Chair: Let me interrupt you there and move to Ms Boyd.

Mrs Boyd: Thank you for the presentation. I'm curious about what the nature of this partnership and working together is. Are we talking about an investment strategy? I'm quite curious as to the form it takes.

Mr Petrie: You mean education?

Mrs Boyd: Yes.

Mr Petrie: "The answer is money, stupid. What's the question?" is the old saying. It's going to take a lot of

money to change the system, and who pays? That's going to be the critical thing.

Does the government have the money? Certainly industry has invested a lot in community colleges and universities. However, there's a limit to what it can invest. It certainly doesn't have the right to force students — slavery has been outlawed, thank God. We don't have the right to force students to come to our company just because we've invested in a program. Do the students pay? These programs will cost money, and that is the political hot potato: Who pays?

Some people will argue that students will pay $20,000 to get a year's education in IT. When they're walking into a $50,000-a-year job it's not a big deal. When a student comes out of the University of Waterloo in computer science and starts at $90,000 or $100,000, $80,000 worth of debt doesn't look too bad. When they graduate out of an arts course in sociology at York and they're looking at a $20,000 debt and they're waitering or waitressing, that's a horrible debt. So who pays?

But we also have to also preserve accessibility. My roommate came from an impoverished background. He never saw a dentist until he was 21. He suffered from malnutrition as a child. Now he's a senior executive at Canada Trust. We have to preserve that. This is why the issue is not a simple one. It's not something where we can wave a magic wand, but it has to be tackled.

Mrs Boyd: I couldn't agree with you more. I think it is a very complex one. I would take it from what you've said that you would certainly favour some move towards an income-based repayment program for student loans or something like that, given the example you used.

Mr Petrie: Yes.

Mrs Boyd: You seemed to suggest that people were going to the United States because of a tax situation. What are the wages that are comparable, and the working conditions and so on, that people can get in the United States that might draw them away?

Mr Bowden: The company I work for is the eighth largest in the world. We have no debt. We did the equivalent of $1.5 billion Canadian last year. We're growing at 20% a year. We have an office which is very nice. It's in downtown Toronto.

But when I go down south, there are 17 buildings with about 3,000 employees. They are on a university campus with green grass. They have a cafeteria which is subsidized, day care, health care, schooling, tennis courts, the full nine yards there. You go to Redmond, Washington, and you look at Microsoft, which is a $1-billion enterprise; you can go to Armonk, New York, IBM. These are very romantic locations. It is absolutely amazing what these companies are capable of doing, and to the young kids who have really never seen this type of thing, it's quite romantic.

You hear a bit about Disney coming here, you hear a bit about some of the companies coming up here perhaps for research and development tax credits at a federal level and because the skills are here. But when you sit at marginal tax rates at a $50,000 or $60,000 income level, which tend to be about 41%, and you compare that to 20% and move very slowly upwards to $250,000, there's a tremendous incentive to staying down south.

Mrs Boyd: Well, not if you add the cost of health care, not if you add some of the other costs.

Mr Bowden: I'll give you an example. Most of these companies provide health care trusts. The deductions per month for health care — full coverage, just like in Ontario — is $75 a month. They self-insure and they provide a quality of health care that's probably comparable. I agree with you that the inequity —

Mrs Boyd: Oh, surely given the — well, all right. I won't argue with you.

Mr Bowden: But my point is that the young individual going down there will look at this. Health care generally, if you are 20 to 25 years old, to the average individual — I'm talking average — is not a major concern. They will look at the dollars that are offered, which are substantial, they will look at the environment, and they'll make their choices.

Mrs Boyd: So you're telling me that they pay higher wages —

Mr Bowden: Yes, they do.

Mrs Boyd: — and they have better working conditions.

Mr Bowden: They can and they will.

Mr Petrie: The smaller firms here can't compete with the big American firms, although places like Northern and Mitel can. Typically, what happens is a kid will leave the University of Waterloo, go down to the States for 10 years, because health care is not a big cost. When you're under 30 years old, health insurance is not a big cost. They go down there, make tons of money. They can deduct their mortgage, build up a capital base. They go down there for their 10 most productive years, work their buns off, make a pile of money and then, when they get pregnant and want to be near grandpa and grandma, they come back to Canada, generally in their early thirties. That's typically the thing, but we lose them for 10 years. They make their bucks in the States, they come back here with their house paid off, their cottage paid off, and $200,000 in their RRSPs. Then they settle down to living here.

It is a better quality of life. I'd never, myself, move to the States and there are certain numbers of Canadians who wouldn't. I think no matter what, because of the situation, we're going to lose people. There is an argument for going down there. I know friends of mine who have. A lot of it centres around taxes, unfortunately. It's just a fact of life.

Mrs Boyd: It strikes me as odd that we've got a situation where there are so many jobs going begging and we have a lot of people who've been displaced from work that one would think would make them logically retrainable in those positions, yet that doesn't seem to be happening. In fact, what's happening with all forms of adult education is a real erosion of the ability of adults, once displaced, to retrain for the very jobs that are required. Do you have a comment on that?

Mr Petrie: We're trying to address that, because one of the things is, why can't we retrain people for this industry? There are different levels of training needed, but basically if you look at ITI, which is a private sector place, they're taking people with university degrees who can't find jobs, and for $20,000 they're turning them into people in demand; 90% of them get jobs within four weeks after graduation. They come out with a $20,000 debt, but it doesn't seem to be a problem; they're bursting at the seams. In some ways the private sector is trying to address that. There's a big market niche there. The community colleges now are starting to develop crash programs to take people off the streets.

For example, four members of my association have partnered with Centennial College to develop a networking program so they can program routers and stuff. It's a nine-month crash program which actually is taught by people in the private sector. Cisco and CGI are sending people in. They've built the lab; they're sending in instructors. So it's starting to happen, but there's a huge pool over here and there's a huge demand over there. It means lengthening the tube — money — and right now it's being financed by student debt, although it doesn't seem to be a problem because they're walking into high-paying jobs. But we're working to expand that. We're launching some programs at ITAC Ontario to expand the pipe as well.

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Mr Baird: Thank you very much for your presentation. I won't use up all the time because I know my colleague from Kitchener has some questions as well.

I'm from Ottawa-Carleton, so I'm certainly well aware of the importance of the high-tech sector. It's a big job creator there, and the skills shortage is certainly something that has caused us all a great amount of concern.

I have noticed one thing. This is one of the few issues that tends to be not a partisan issue but one where we're all particularly concerned. This is about the first time in this process where we have seen this. It has come up a few times but particularly with your presentation. You have given us a lot to think about, and I want to thank you.

There are some issues, and I wanted to get a sense from you along those lines, in terms of the tax rate and its relationship to the brain drain. The University of Waterloo co-op program is one of the biggest. There are 900-odd students in my riding alone, a good number of them from Waterloo, at Nortel and Newbridge and what have you. I understand Microsoft actually has a recruiting office right at the University of Waterloo. Not that it's a race to the bottom, not that we could ever compare — I mean, Washington has no state income tax, so we'll obviously never get there — but when you compare the quality of life, health care and the other benefits, how much of the tax rate on the income side would you identify as a problem?

Mr Bowden: Certainly it can be a very big one if it's sold properly to the individuals. When we transfer an individual south, for instance, within our own organization, the two things that are basically sold to the individual are the tax rate and the purchasing power of that dollar. It can be a very persuasive argument, especially if you're single and don't have family considerations. I think family, when you make this kind of move, is very important, and I don't think there is anybody here who would discount that. How do you tell somebody who potentially can earn US$100,000 a year and be sitting in a marginal tax rate at 32% when you compare it to 50% in Canada? How do you deal with that? It's a very difficult thing. Some people are motivated by things like that. Those are some of the considerations.

I think we have to do a better job of selling what we have. We have a good health care system, we have a good education system, and we are progressive as far as tax legislation is concerned. We certainly look at competing within Canada, but in our industry we have another problem. We must compete globally. We must compete with the United States, which is our biggest neighbour to the south, and there are international competitors as well. Our capital is intellectual capital, and unfortunately, intellectual capital can get on an airplane and move. That is one of the difficulties, where we have to be most creative in retaining people. We have to be able to sell them on something other than tax rates to get them to stay, but that's not to discount the issue. The tax rate is an issue.

Mr Baird: One quick question, because I know my friend from Kitchener has a question. You mentioned the debt-salary ratio for new graduates as an issue. Is that fairly widespread? I think there are ways we could expand high-tech education placements in universities or community colleges: (1) new money or (2) taking from Peter to pay Paul; or the third way would be to simply allow tuitions to increase for those areas where it costs more, where there is a higher salary expectation or reality, even if there were some sort of guarantee. At Queen's University, for example, the tuition for one of their programs is $20,000, and you don't have to pay it back until you make $50,000 a year or more, and they're getting their money back.

Mr Petrie: I was talking to one very prominent person at a university and he said, "Go in and bash those SOBs and tell them we need some money." The taxpayers don't want to pay any more taxes — I think that was made fairly clear in the last election — and you've got to balance the budget, so I don't know where the money is going to come from. This is a big problem, and yet, as my buddy with the false teeth at 22 will tell you, we have to preserve accessibility. He said: "If we didn't, I wouldn't be here. I wouldn't be making what I'm making. I wouldn't be where I was." Quite frankly, I wouldn't be where I was and neither would my father. My father wouldn't have done well and I wouldn't have done well if my dad had gone broke.

I believe, however, throughout all the talking that's been going on, these high-tech courses — if you're going to put a workstation in front of a student and teach them advanced graphics, it's going to cost money. These workstations cost money, and an instructor to come back

and teach multimedia, a good one, is going to be $150,000 a year. Students are going to be sitting in front of a $10,000 or $15,000 terminal and the terminal only has a life of a year and a half before it's junk. Where is that money going to come from? The government doesn't have it; we don't think it does. We wouldn't ask for it.

At the universities, some of their buildings are starting to crumble now. Eventually, if the students graduating — if they get people at Sheridan into a $65,000-a-year job and that's the average salary and it's going up by 20% a year, maybe they can afford to assume a $30,000 debt to get that $65,000-a-year job. Otherwise, as Sheridan argues, those places aren't going to be there.

However, we have to ensure that if a student comes from the background that my friend does, a tarpaper shack in Timmins with an alcoholic father and four brothers, they can have access to that funding as well. The funding has to be based on merit. He went through on grants. We have to ensure that the funding is based on merit as well. I go to Emery and I see kids who are third-generation welfare. Computers are their way out. They're lining up at midnight to be on those computers down in the Jane-Finch corridor. It brings tears to your eyes. You want to make damned sure those kids are going to be in the university course at the University of Waterloo, and the funding had better be there. If they have to pay for it, the funding had better be there. That's what we believe. If it comes from the student, fine.

My niece is going to the University of Waterloo. Her family doesn't have money. But if she graduates with $80,000 in debt into a $100,000-a-year job, it's not a big issue; I keep telling her that. She'll pay that off in three or four years. With an $90,000 or $100,000-a-year job, you can pay off that debt fairly quickly. Live in an apartment, take the bus to work for a couple of years and it's gone, right? It's better than waitering and waitressing through an arts course.

Mr Bowden: I think we have to prioritize. We have to choose how we want to spend our money. If you look at the job growth since 1990, I remember that in the late 1980s, early 1990s, we lost a quarter of a million manufacturing jobs. The economic engine here was on the ropes. We as an industry have been able to make that back. We've been able to make it back through some fairly rough times, which means I think we've hit something here; I'd like to think so anyway.

If it is the will of the people of Ontario or the will of the Legislature to prioritize this from an education standpoint, we should communicate that to our constituents. It's one thing to educate people over time, but we have to have a vibrant industry at the other end as well. Education by itself is not isolated. We have to have the regulatory environment and the financial environment to provide and grow healthy businesses, because as we all know, healthy businesses produce jobs. High technology at the moment produces some very high-income jobs and produces a very high royalty base for the government to reinvest.

There are no easy answers, but somebody has to stand up and show that there is a vision here and say: "Maybe it's not only reading, writing and arithmetic. Maybe there's something else we need to do." I think we're partially there. It's at the universities and colleges. Now we've got to bring it to the high schools and to the public schools. It may be a step-by-step process, but we've got to look at that.

The Chair: I have to stop you there. We are out of time. I thank you for your time today and for your presentation. It was very much appreciated.

Mr Petrie: Maybe you should know that for every technical job you create two non-technical jobs. I'm a marketing guy and Stuart's a financial man.

The Chair: Members of the committee, we'll stand adjourned until 9:30 tomorrow morning in room 151.

The committee adjourned at 1729.

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Published by the Legislative Assembly of Ontario

Service du Journal des débats
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Toronto ON M7A 1A2
Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Wednesday 18 February 1998

Mercredi 18 février 1998

The committee met at 0934 in room 151.

PRE-BUDGET CONSULTATIONS

NATIONAL CITIZENS' COALITION

The Chair (Mr Garry Guzzo): Our first presenter this morning is the National Citizens' Coalition. Gentlemen, welcome. Thank you for attending. We have 30 minutes. Please proceed.

Mr Colin Brown: My name is Colin Brown. I'm the president of Ontarians for Responsible Government, which is a project group of the National Citizens' Coalition. I see you have Sid Ryan coming in after us this morning, so you're certainly getting a good variety of political perspectives. I'm sure by lunchtime you'll be totally confused.

Mr John R. Baird (Nepean): Some of us are a bit all the time.

Mr Gilles Pouliot (Lake Nipigon): On a point of order, Mr Chairman: Are we receiving the — oh, yes, I'm sorry. You did mention Mr Ryan. He comes in afterwards.

Mr Colin Brown: That's right.

Mr Pouliot: So he has the last word.

Mr Colin Brown: He has the last word, but it's before lunch, so I don't know what it's going to do to your stomachs — but at any rate.

Sitting beside me is Gerry Nicholls, our communications director, whom some of you know.

ORG is a group which consists of 7,000 Ontario taxpayers who believe in free enterprise, individual freedom and that less government is better than more government. We were born the day after the first NDP budget, if you recall, seven years ago. That makes us older than the Common Sense Revolution. We've made a name for ourselves with our attacks on government waste and high taxes, and I suppose that's why we were asked to appear before you this morning.

However, I am not here this morning to talk about bond ratings or debt ratios or tax structures. I am here to talk about matters that do not show up on balance sheets: things like principles and values and the importance of remaining true to your commitments.

I think such issues are relevant to this committee's mandate. After all, government is not merely an accounting exercise of ledgers and budgets. Government is more than that. Government is a special bond between citizens and elected officials, or to put it more simply, we elect politicians to do a job and we expect them to deliver.

If you want to use an analogy, government is a lot like the flight crew of an airliner. We, the voters, give the crew their flight plan and we trust that they will take us to a certain destination. In 1995 voters gave the Mike Harris government a pretty clear direction on where they wanted to go. They wanted lower taxes, they wanted smaller government and they wanted to restore fiscal and financial health to the province. To be sure, at the beginning of its mandate, the government soared along on the proper course. It acted decisively and boldly when it repealed labour laws, slashed taxes and axed government spending, and it showed true leadership when it scrapped the gold-plated MPP pension plan.

The days of wild spending, never-ending tax increases and uncontrollable debt are thankfully over — we hope. Certainly the government deserves praise for this, and it deserves praise for sticking to its promised tax cut in the face of unrelenting protests from strident special interest groups.

Yet at the same time, we are disappointed and even alarmed with certain signals which seem to indicate the government might be diverting from its flight plan.

The first signal was the unexpected and unscheduled detour into the Toronto megacity debate. It's not yet clearly understood why the government took us there and what it hoped to accomplish. One government is better than six. However, we could also end up replacing six wasteful governments with one big wasteful government. Equally clear is that this megacity controversy caused the government to expend valuable political capital that could have been used to bring us closer to an Ontario with smaller and not bigger government. Imagine, for instance, if the effort poured into merging the city had been directed towards, say, privatizing municipal services. Such a course would have addressed the actual costs of services delivered to taxpayers and how they could be reduced.

A second worrying signal concerning the government's path is the apparent loosening of commitments to reduce government spending. As I noted earlier, at one time this government seemed determined to make spending cutbacks a top priority, and rightly so. Reckless government spending prior to 1995 bestowed upon Ontario a legacy of massive deficits and a crippling debt, and the problem has not gone away. Ontario still faces a deficit of about $5 billion and a provincial debt approaching $108 billion. We are a long way from Alberta yet.

Still, we read in the paper that the finance minister and the Premier see no need for any new spending reductions. This suggests, unfortunately, that rather than continuing reductions in spending the government is hoping that increased revenues from a growing economy will eat up the deficit and shrink the debt.

To some, of course, this is an appealing plan. Why risk unpopular spending cuts when the problem will take care of itself painlessly? Well, unfortunately, experience has shown that you can't take short cuts when it comes to restoring fiscal integrity. The truth is that taxpayers cannot count on politicians for decades of fiscal discipline. Nor can we be sure of solid growth, given our debt and tax levels. What's more, recent signs from the economy — a falling dollar, rising interest rates and slowing economic growth — are warning us that things could get worse before they get better. This government should not revert to a simple reliance on low interest rates to solve its problems. Too many governments have done that, only to see increased costs and plunging credit ratings.

In short, there's only one reliable way to reduce the debt and eliminate the deficit, and that's to cut spending. This is a fact that the government understands. It's why, back in 1995 during the provincial election campaign, Premier Mike Harris promised to pass a balanced budget law, a promise we were happy to see he reiterated a few days ago. This is a long-overdue step that Ontario desperately needs to ensure long-term fiscal responsibility.

0940

After all, the nature of the political system gives politicians incentives to expand the size of government through higher and higher spending. A law forcing the government to balance the budget would force politicians to kick the spending habit. Of course, to be effective a balanced budget law must go hand in hand with a law that would prevent governments from raising taxes without the approval of Ontarians in a referendum. This would ensure that the government would eliminate the deficit by tightening the provincial budget rather than cutting the family budget with taxes. This government, I am glad to say, also promised such a tax limitation.

Can these types of government limitations work? The answer is yes. Take Switzerland, for example. The Swiss require any tax or spending increase to go to the voters for approval if enough citizens demand it. I think it's not a coincidence that Switzerland enjoys one of the lowest marginal income tax rates in Europe. It also has low sales taxes compared with its neighbours.

In the United States, meanwhile, 31 states have constitutionally imposed balanced budget requirements and some 23 states have some form of tax and expenditure limit legislation in place. Studies have found that states with spending and tax limitations succeeded in keeping taxes and government spending down.

Needless to say, if the government enacted such limitations here in Ontario it would represent its greatest and most long-lasting achievement. It would be nothing less than a legacy of fiscal responsibility for future generations of Ontarians.

Another promise the government made back in 1995 concerned privatization. This is one promise the government unfortunately seems to have abandoned. We had high hopes that this government would emulate British Prime Minister Margaret Thatcher and implement an aggressive privatization program. After all, as the Common Sense Revolution booklet so rightly noted, "History has shown that the private sector can use public assets more efficiently and provide better services to the public." Yet here we are in 1998 and the government has done next to nothing when it comes to selling off government agencies and services.

It's a mind-boggling omission when you consider that privatization has shown itself to be the most efficient and popular method of reducing the size and cost of government. Indeed that's why governments everywhere in the world, including socialist governments, are privatizing with fervour. In fact, according to the Reason Foundation, the value of privatizations worldwide in 1996 beat all previous records with a grand total of US$86 billion. The total in 1995 was $73 billion. Experts expect that 1997 will be another record year. One analyst has estimated there were at least $53 billion worth of privatizations in Europe alone last year.

All these privatizations are taking place because privatization works. The World Bank released a study called the Privatization Dividend which looked at the performance of 61 privatized companies in 18 different countries. The report showed that on average privatized companies saw their profitability increase 45%, saw efficiency jump 11%, saw investment increase 44% and saw employment go up 6%. When was the last time you heard numbers like that from Ontario Hydro?

What's more, a recent survey asked 500 US municipal officials about their experiences with privatization. Seventy-four per cent of those who had some experience with it said the experience was somewhat or very successful.

Then there's Britain's new Labour government. This group of socialists has also embraced the concept and has not dared to reverse one major Conservative privatization.

Even Communist China is getting into the act. That last bastion of Marxism is getting set to privatize tens of thousands of state-run industries. As one Chinese official explained, "Everyone knows the most successful companies are privately owned." That about says it all.

But what's happening here in supposedly Conservative Ontario? The man hired to oversee its privatization program quit recently because he had nothing to do. He couldn't even privatize the liquor stores. It's embarrassing.

If the lack of privatization suggests the government is drifting off course, then the appointment of Floyd Laughren means the compasses in the cockpit must be spinning. After all, Pink Floyd is the cabinet minister who spearheaded dozens of tax increases and who doubled the provincial debt. He was in many ways responsible for the Common Sense Revolution.

Why would a Conservative invite a socialist, a former NDP finance minister, to head the Ontario Energy Board?

The Laughren appointment is reminiscent of the time former Prime Minister Brian Mulroney named NDPer Stephen Lewis as Canada's ambassador to the United Nations. At the time it was a clear signal that the federal Tories had abandoned any Conservative principles they had. We hope history is not repeating itself, but we must ask, how can you be serious about competition in the marketplace when you put a socialist at the controls of the regulatory body? Will Hydro ever be privatized? Time will tell.

Certainly the government's next budget will be an important landmark which will indicate whether or not this government is still on the right flight plan. We will be looking for signs that the government is going to finally start privatizing, we will be looking for signs that it will renew its determination to cut spending and we will be looking for signs that the government is remaining true to its principles and values.

But let me end with this caution. If the government has changed course, if Ontario is headed somewhere else than what we were led to believe in the Common Sense Revolution, then it had better break out some parachutes because, frankly, it'll face a mighty rough landing when the next election rolls around.

The Chair: Thank you very much, Mr Brown. We have approximately five minutes per caucus for questions, and this being day seven, we should be starting with the Liberal caucus.

Mr Monte Kwinter (Wilson Heights): Thank you, Mr Brown. It's going to be interesting to see what really does happen and what your position is going to be as we come up towards the next election.

One of the things that has been brought to our attention is that the government had projected in its budget that it would reduce spending by 5.8% and in fact it's only going to be 1.9%. What is happening is there seems to be a trend — we keep hearing about other things that are coming on stream — where this government will probably be spending more money than any government in recent history, in real numbers. Do you agree with that?

Mr Colin Brown: I've seen the numbers that refer to what you're talking about. I think it refers back to the easy way out if you've got a fairly low prime rate and you have revenues which are coming in. One of the reasons revenues are starting to come in is because you've had a tax cut — we do support that — but it makes it very easy to lay off on your attempts to cut spending. I would not be surprised by any of that. I don't have access to the numbers or the books, but what you're saying wouldn't surprise me, Mr Kwinter.

Mr Kwinter: What is your organization's response to the fact that at the end of this mandate the debt will have increased by about $30 billion, all of that attributable to the tax cut because the tax cut is all done on borrowed money? Notwithstanding that the deficit is going to be reduced, it is being reduced at the cost of increasing the debt and we will have probably again at the end of this mandate a $10-billion interest charge to service that debt. How is that going to affect your particular perspective on what should be happening in this province?

Mr Colin Brown: Our perspective is that we believe in free enterprise, we believe in less government, we believe in low taxes. If this government or if any government proceeds along that line, the problems you've talked about will eventually take care of themselves simply because, if you have lower taxes and a strong economy and you eventually hit a position of a balanced budget, things are going to start turning around, but they have not turned around yet.

It drives me crazy sometimes when I hear people running around saying that because the deficit is down $1 billion we now have extra money to spend. We don't. We're nowhere near that point yet. I would encourage the government or anyone to keep their shoulder to the wheel, because we've got a long way to go yet.

0950

Mr Gerry Nicholls: Let me just question one assumption that you raised, however. The deficit or the debt has nothing to do with the tax cut. If anything, cutting taxes will increase government revenue. We've seen that. We don't have any statistical evidence for here in Ontario because there haven't been a lot of tax cuts lately, but if you look in the United States in the 1920s, the 1960s, the 1980s, whenever there was a tax cut it resulted in an economic boom, which in turn resulted in more government revenue. So I wouldn't blame the deficit or the debt on tax cuts; I would blame it on the fact that the government is not cutting spending fast enough, it's not privatizing, which is something that has to be brought up today. There are various things the government can do to reduce the deficit; there are various things the government can do to reduce spending. You've just got to do it.

Mr Kwinter: One of the other things you mention in your brief is a reference to Hydro and the fact that you feel it should be privatized. We've just heard that they've had the largest loss in corporate history, which is taking their debt to $32 billion. They have other potential for stranded debt because of the restructuring. It seems to me, and I sat on the select committee on Hydro, that if there was privatization — and you should know that no one is really talking about privatization at the moment; they're talking about competition but not privatization — if they were to pursue your goal of privatization, somewhere along the line, to make it remotely feasible for anybody to get in there and try to acquire it, the taxpayer would have to assume a huge part of that debt. Otherwise nobody's going to buy into it and assume that debt, because it doesn't make any sense. There was an article in the paper today — and we've said that all along — that Hydro is effectively bankrupt. Do you have a response to that?

Mr Colin Brown: If you looked at the examples around the world — British Energy, in New Zealand other major privatizations — these large publicly held corporations were not in good financial shape either. Let's face it: Hydro is in a very difficult situation. But I know that several years ago there were very positive cases made for the privatization of Hydro, and Hydro was an asset that some people would want to buy; there would be people out there in the marketplace who would want to buy it. With

the latest news it's difficult to say, but it could be prepared for that or certain assets of it could be prepared for it. Obviously, the nuclear issue has always been something which people have suggested might not be part of a sale, might be separated.

Mr Pouliot: Welcome, gentlemen. I constantly read about your philosophy and your contribution, especially when I go on Bay Street. You're to be commended for your imagination.

Where would you stop? Do you have any reservations vis-à-vis your inclination — and I don't say this negatively in the least — to privatize? Are there some sacred trusts or some sectors where you would be more hesitant, more careful about privatizing?

Mr Colin Brown: We think there are three big targets in Ontario, and they're not that big: the liquor stores, LCBO, Ontario Hydro and TVOntario. We just don't see why any of these are sacred; we don't see why there's a public perception or a great tradition that says that the taxpayers have to be 100% up to their elbows in these businesses.

Mr Pouliot: Indeed. The Ontario government will sell you one Pickering nuclear plant for $1 and you get one free. The debt is $32 billion. Out of this — Mr Kwinter, please correct me if I'm wrong — there is a capacity exceeding $2 billion from the Canada pension plan, a little known fact, fully supported by the province of Ontario, a crown agency when it serves its purpose, an independent body also when it serves its purpose.

It is estimated that if Ontario Hydro, with its dilemma to restore the viability of nuclear plants, were to tap the marketplace independently, given the debt, you would be looking at a 75- to 100-basis-point difference without government backing. Do you feel it's good business for Ontario taxpayers, or should they just go to the private sector and it would come back by way of a major rate increase to the consumer?

Mr Colin Brown: I'm not sure the major rate increases are a guaranteed result of all this. The numbers you have just pointed out illustrate to me all the more reason why we shouldn't be in this business. I don't think it's going to end. If you look at Ontario Hydro's management over the decades, it has been run not like an aggressive business which has to exist with competition; the management has existed like a Star Chamber. It has been very difficult to get information and it has behaved with a lot of great fiscal impropriety.

If you look at Hydro and how it has been run, certain things can be changed by some bits of competition, which are being introduced now in breaking it up, but in the long run I would suggest that the only way to really fix it and solve the problem is to get it off the books.

Mr Pouliot: Hopefully, it would be more successful than the water privatization under the Thatcherite philosophy, the Thatcher regime.

You've mentioned that you commend the government because this is a government that does what it said it would. You've mentioned that it cut off the gold-plated pension plan, so there is no more gold-plated pension plan, in your opinion, right?

Mr Colin Brown: It has been changed substantially, yes.

Mr Pouliot: So that has been a welcome move.

Mr Colin Brown: Yes, very much so.

Mr Pouliot: Government spending: Mr Kwinter has indicated that it is likely that this regime will have spent more in this fiscal year than any previous government in any fiscal year. Government spending — health, education, social services — is where the money is being spent by and large, the majority of the dollars. You still have a deficit likely in the neighbourhood of $5.2 billion three years into their mandate. This will be the last jurisdiction in Canada to reconcile the books, if the economy keeps turning around. Where would you cut: health, education or social services?

Mr Nicholls: I don't think it's really our job to tell the government where to cut. That's what we elected them for. They have to make the decisions.

Mr Pouliot: But you're very bold.

Mr Nicholls: I can tell you this: Here's what they should do. First of all, they should look at every government agency, every government service, and say, "Is this something that could be done better in the private sector?" You raised the question before, what would we not privatize? I think there are very few things the public sector can do that the private sector can't do better. Look at everything the government does. If the private sector can do it better or if it's something the government shouldn't be doing in the first place, privatize it, sell it off, contract it out. That's number one. That would be a tremendous saving for government right there.

Number two — and this is something which our organization has always been opposed to, and I'll raise it right now — are handouts to special interest groups, subsidies to business, grants. The government does not pick winners and losers in the marketplace; it shouldn't be picking winners and losers with taxpayers' money. That's another area where the government could save money.

Mr Wayne Wettlaufer (Kitchener): Thank you, gentlemen. You highlighted that in the United States, 31 states have constitutionally imposed balanced-budget requirements. The United States federal government, when President Clinton came to power, had a deficit of $367 billion. This year it will be something in the area of $10 billion. I wonder if you could comment on how they have achieved that.

Mr Colin Brown: How the American federal budget deficit has been achieved?

Mr Wettlaufer: Yes.

Mr Nicholls: We're not experts in American public policy. We haven't been following the issue there very closely. We have looked at the areas where the states have introduced balanced-budget amendments, and studies have shown — there's an organization called Cato Institute which showed that those states which have implemented these kinds of reforms have resulted in lower spending and lower taxes. I'm sure there's a move in the United States

to make that federal; in fact, I know there's a move to make that federal. I would suggest that whatever they're doing there, there's still a strong movement towards the kind of suggestions we making about how to make government more accountable, how to make government listen to the people who elect them. I think that's the important thing that we're trying to get across here today.

1000

Mr Wettlaufer: They had followed many of the same policies that we have followed, and I was hoping you could shed a little more light on it.

The other thing I wanted to talk about is that the members of the other two parties have been talking out of both sides of their mouths in the last few days. They have been in one sense criticizing us for increasing spending, as you have here today, and in another area they have failed to recognize that we have increased spending in the health care and the education fields. Health care, of course, we have increased to $18.5 billion, $17.8 billion in program spending alone, and that is necessary in part due to the restructuring that must go on if the reforms in health care that their own very governments started are necessary.

Education at $14.4 billion: We've heard from numerous organizations in the last few days that if we are going to prepare our young people in the areas that are necessary for future development, ie, high tech, increases in spending in that area are necessary. That's not to say that we can't save money in other areas of education, and they're being looked at, I can assure you.

Do you have any suggestions as to where we might be able to reduce some spending in the education field?

Mr Nicholls: When you're talking about education or health care, I think the assumption is that spending more money is the answer, and I don't think it is the answer. I don't think the problems these areas face are due to government spending; I think they're due to the nature or the structure of the system.

As you're talking about education, we'd like to see a system where there's more accountability, where parents and teachers and students have more of a choice. We were disappointed that the government, when they implemented Bill 160, seemed to be going in the opposite direction. They were concentrating more powers in Queen's Park when what they should do, in our opinion, is give more power to the local areas, give more power to parents, give more power to students, give more power to teachers. I guess what I'm trying to say is give people a choice in education. Inject some market economy and inject some ideas of competition into education and into health care as well.

Mr Wettlaufer: Are you talking about charter schools?

Mr Nicholls: Charter schools is certainly one very exciting idea which they have tried in various parts of the world, in the United States and in Alberta, and it's working very well. I think it could work here as well.

Mr Baird: I want to touch briefly on page 4 of your presentation. You spoke both about balanced-budget legislation and legislation requiring referendums for tax increases. Can you explain why you think that's important in the medium and long term?

Mr Colin Brown: Sure. The fact is that if you don't have some sort of structural limitation, if you do not have some sort of mechanism in place where a successor government would have to undo it at their peril with the voters, it's simply too easy to run up the tab again. Time and circumstances can change, and we alluded earlier on to the experience in Britain. It's very interesting to see how Margaret Thatcher has actually moved the yardstick. She has actually moved the centre dramatically in the political spectrum there. Tony Blair is not a traditional Labour type of leader, just like Bill Clinton, who stood up and said the era of big government is over in his most recent State of the Union address, is not a traditional Democrat.

Mr Baird: You'd admit they're good examples for our friends across the aisle?

Mr Colin Brown: Absolutely. I hope they're listening.

The point is that you have to have some legal or very, very strong mechanism in place that really makes it awfully difficult for future generations of politicians to run up future generations of debt for the taxpayers.

The Chair: I have to interrupt you there. I do thank you for your presentation and for your time this morning, gentlemen.

CUPE ONTARIO

The Chair: The second presenter this morning is the Canadian Union of Public Employees, Mr Ryan. Good morning and welcome. Thank you for coming. Please introduce your associates.

Mr Sid Ryan: Good morning and thank you for the opportunity to make a presentation today. Joining me are Margot Young, a researcher with our CUPE national organization; and Doug Allan, also a researcher, with the Ontario region. Both of them were very helpful in putting together our brief.

I come before this committee today on behalf of CUPE's 180,000 members in Ontario. It is because these members are affected directly by the actions of your government that CUPE Ontario has a pressing interest in the budget.

One need only pick up the papers today in Ontario to be reminded of the unprecedented levels of anxiety out there as a result of the policies and the fiscal agenda of your government, an anxiety which has been created by a government determined to deliver on a promised tax cut at whatever the cost, a government that sees our cherished health care system as expendable, a government whose record in dealing with youth unemployment could fit on the end of a squeegee mop, a government that has used welfare recipients as scapegoats and launched an all-out attack on the province's most vulnerable, a government that has raised tuition fees for colleges and universities to the point where those institutions are now out of reach for most working families.

We represent members who work in the broader public sector. Our members have experienced directly the impact of the spending cuts. They have seen services diminish and people suffer as a result of economic policies that have hurt low- and middle-income people in this province. We strongly disagree with the policy of providing tax cuts that are funded by slashing spending on social services and welfare, health, education and municipal infrastructure. Tax cuts benefit higher-income earners while doing nothing for most people, who rely on these valuable programs that have been decimated by your government.

A worker earning about $33,000 is getting approximately $350 as a tax cut, but someone earning over $250,000 per year takes home $15,000 in the tax cut. Tax cuts clearly benefit the wealthy, the ones who need it the least. This type of spending must end. We envision a budget for Ontario that will benefit all Ontarians. Instead of spending money on tax cuts, we want to invest in health, education and social programs. We want a strong public sector delivering these important services to the people of Ontario.

We're going to focus a lot of our presentation today on the issue of making children a priority. The child poverty rate in Ontario under your government has climbed to an astronomical 19.1% from 11%. That's one statistic we don't hear the finance minister or the Premier crowing about. One of the best investments this government could make is in high-quality, not-for-profit child care; instead, it has cancelled millions of dollars in child care funding and threatened the continued existence of junior kindergarten. No previous government has ever reduced funding for child care.

CUPE supports quality, accessible, not-for-profit and publicly accountable programs. This government has touted unregulated care as the arrangement of choice for the care of children, even though most experts and care providers say this is not the way to help children.

We also call for the restoration of funding for junior kindergarten. Allocating increased funds for child care and junior kindergarten will be a sound investment for children and enable parents to participate in the workforce.

The economic policies of your government, coupled with shifting single parents to workfare, will increase the number of families in crisis, thus increasing the demand on the already underfunded and understaffed welfare system.

Contrary to what Minister Ecker would have Ontarians believe, this government is committed to one thing only in the social services sector: slashing costs. Welfare and program cuts result in increased child abuse and neglect. Our child welfare system is in crisis in Ontario. Coroners' inquests into the deaths of children have called for increased funding to community support programs, regulated not-for-profit child care, public housing, addiction services, public health, visiting nurses and community-based child abuse prevention programs.

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Despite the calls for restoration and increases to funding, the government has done nothing but repeat the same funding announcement to provide $15 million, an amount that will not solve the problems in child welfare in Ontario. You have made this announcement six times in the last year, and we're getting a little bit sick and tired of hearing about this $15 million, which has yet to materialize, by the way.

CUPE is calling for restoration and increased funding to child welfare along with improved workload protection for workers. Child abuse prevention programs must be properly funded as well as community programs for children.

I'm going to deal with workfare and the attack on poor people.

The 1990s will be remembered for how your government tried to achieve prosperity on the backs of low-income people. You have chosen to cut jobless and welfare benefits while safeguarding entitlements for corporations and richer Ontarians. The result has been a widening gap between rich and poor.

The government has embarked on a strategy in welfare reform that will hurt job creation in Ontario. Workfare must be ended. It is a job killer. The government means to introduce workfare to the private sector. This will take even more jobs away from the economy and create increasing downward pressure on all wages. Instead of creating decent jobs, this government is concentrating on putting together a $3-an-hour workforce for private business. This is what employers will have to pay workfare participants. There is no doubt that workfare will lead to higher unemployment. In the global race to the bottom for working people, this government is leading the way.

Studies have shown that employers will not create jobs if they can use workfare participants. In Quebec, employers said the workfare program meant that instead of hiring people, they could use people on welfare. Recent studies of New York City workfare programs show that workfare doesn't work. Apart from creating a class of workers that have an inferior status with no minimum employment standards protection, the workfare program has not led to employment. The city parks department, which utilizes 5,483 workfare participants, has only hired 22 of them on a full-time basis. In contrast, 61% of those who receive on-the-job training get full-time jobs. Clearly, if you invest your money in on-the-job training you'll have a better return.

We urge the government to scrap workfare and to start investing in publicly delivered training and apprenticeship programs and to increase investment in job preparation courses. Ontario's apprenticeship training programs pale when one looks at the investment in training in Europe.

Recent reports show the government is contemplating even further cuts to welfare. The province might cut rates for single, employable clients. In 1995, rates for a single person were $630 per month. After the 21% cut introduced by your government, the rate dropped to $520 per month. The government is now contemplating a rate of less than $460 for this group. This is simply taking food off the table and clothes off the backs of the poor in Ontario. A villain from a Dickens novel would be proud. Yet

this money that would have been spent directly in Ontario's communities supporting small businesses, not on luxury items for the wealthy. Welfare rates must be restored to the 1995 rates.

According to the Ontario Coalition Against Poverty, the existing welfare cuts have resulted in skyrocketing evictions in Toronto, and the use of emergency shelters is up 67% over last year. Social housing must be improved if we are to make any headway in reducing poverty. Yet the Ontario Housing Corp plans to sell off units.

People living on the streets of Toronto are about to lose their meagre $4 shelter allowance if they can't provide receipts, leaving them with $6.50 for basic necessities. This mean-spirited action is part of the government's attack on poor people. It will have an insignificant impact on spending.

The gap between rich and poor is increasing in this province. Creating a chasm between rich and poor in this province will create long-term injury for our economy and Ontario society. We must restore spending to welfare and social services. Low-income Ontarians must have stabilizing programs and protections from the fluctuations of the economy.

I'd like to deal briefly now with health.

While the government continues to pretend that overall spending on health is increasing, the fact is that spending has not kept up with inflation. As part of the overall health care sector, spending on hospitals has decreased drastically from 47% of the total in 1994-95 to just 39% in 1996-97. Your government took a huge chunk out of hospital operating budgets in 1996-97 and in 1997-98. The total cut was $800 million, and this government still sticks to the big lie that they are not cutting health care spending.

In addition to cutting spending on hospitals, the government's Health Services Restructuring Commission has wrought havoc across the province, ordering 30 hospitals closed and huge cuts in acute care and psychiatric beds. In so-called sizing the acute hospital system, the commission has relied on a planning tool which sets ridiculously low targets for numbers of beds based on discharging people quicker and sicker.

The targets are also based on sending chronic care patients to yet-to-be-built long-term-care facilities where the funding per head will be reduced from approximately $200 per day to $85 a day. A crisis is looming in long-term care.

The funding for long-term care is inadequate to meet the needs of the existing population. The funding formula does not meet the care needs as they are based on benchmarks that do not reflect the increasing levels of care required. Funding levels need to be enhanced.

Horror stories abound relating to inadequate staffing to meet even basic needs of feeding, changing incontinence pads and helping people out of bed. Introducing patients from chronic care hospitals will exacerbate the existing problems of inadequate funding to provide for the needs of people in long-term care.

Most of the people living in long-term care are seniors. As the population ages, this problem will only get worse. Warehousing seniors in quarters where their basic needs are not met presents another glimpse of the underbelly of the Harris social and economic policy.

The impact of this government's health care policies can be seen all over the front pages of the newspapers. Critically ill people like Fred Gregory are turned away from emergency rooms, paralysed after a long wait for treatment.

An emergency room physician at the Hamilton Health Sciences Corp describes how a typical day starts off with only two beds of the 20 emergency beds accessible to the public because the ER is overflowing with patients who can't get a ward bed. At the same time beds lie vacant in the hospitals because there is no funding to keep them available for patient use.

The hospitals that are slated for closure are operating at maximum capacity. We need them now; we will need them in the future. They also need an ongoing infusion of more operating dollars to reopen badly needed ward beds. Poll after poll has shown that Ontarians will simply not accept any further erosion of the health care system.

In the area of education, the government has already cut more than $1 billion from school board funding and plans to cut another $700 million. The new funding model has not yet been released but funding changes will result in school closures, privatization of services and further deterioration of working conditions. The prime theme of education reform is spending reduction.

Funding for education will come from the province and from property taxes. However, the province will control the property tax rates and set a province-wide expenditure cap on education. School boards will not be allowed to raise funds to meet the unique needs or priorities of their communities. How much flexibility will be provided to the boards has yet to be determined.

The new funding formula must start with an adequate level of moneys. Funding must be provided according to need, not benchmarks. The funding formula must not be formulated to achieve spending reductions. We must ensure adequate and stable funding for our schools.

The infrastructure of education must be kept in the public sector so accountability is maintained. Quality education includes maintaining clean, safe schools, not just what the government refers to as "inside" classroom expenditures. Students require schools with safe, comfortable, appropriate facilities. Keeping these facilities and services in the public sector does this.

Post-secondary education cost continues to climb as a result of Conservative policies. The most recent budget statement allows for increases of up to 20% in tuition costs. University tuition is prohibitive for many working families. Deregulation and fee hikes make university inaccessible. These policies will encourage the introduction of income-contingent loan repayment plans. In fact, your government has raised tuition 45% since you've taken office. Experiences from other countries show that these types of loans make university less accessible to members of disadvantaged groups.

Universities are an investment in our future economic growth and in our quality of life. Government spending on

universities is woefully inadequate to ensure that our investment in our future economic growth and productivity is adequate. Funding for universities must also ensure all students have equality of access through a generous grant system. Tuition fees must also be reduced.

Jobs: Cutting the public sector not only erodes valuable public services that are key to economic stability but the cuts also eliminate an important source of decent jobs. The government cuts threaten wage subsidies for child care workers. Home care workers will have their wages threatened as these services are tendered in competitive bidding processes. Women, youth and members of equality-seeking groups will be most vulnerable if the erosion of public sector jobs is allowed to continue.

Public sector jobs provide decent jobs for women. Average earnings for women in the public sector are $29,000 compared to $16,000 in the private sector. Less than one third of women in the public sector earn $20,000 or less per year compared to nearly two thirds of those working in the private sector.

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According to the December 1997 budget statement, 45,000 public sector jobs have disappeared in Ontario in the first nine months of 1997. Public sector jobs declined 8.5% between 1992 and 1996. These job losses were predominantly from the education, health and social services sectors and, by the way, predominantly women lost these jobs. Is it any wonder that your government has real troubles with women in this province? Does this government not realize that every job counts, whether it's in the private or the public sector?

In conclusion, let me say that we believe the economic policies must start to take into account everyone in Ontario. This means people without jobs, youth, women, children, people living with disabilities and elders.

The public sector must receive renewed investment. The public sector creates the infrastructure upon which our economy runs. Investing in health care, education and social programs provides stability for Ontario's economy. Investment in the public sector generates decent-paying, stable jobs.

We urge this government to start allocating funding to health, education and social programs. To do anything less is to abandon our province's proud history of cultivating a caring and compassionate society.

The Chair: We have about four minutes per caucus. We'll start with the New Democratic Party.

Mr Pouliot: Thank you very much for your presentation, Mr Ryan and colleagues. This morning I have the vivid impression that I am indeed among friends, people who share the same philosophy.

Your presentation, unfortunately, when we are experiencing a recovery supposedly — that's what the financial papers tell us: a recovery which is consequential, a major recovery — tells us that it's an economy which is based on the philosophy of winner take all, whereby those who can run the fastest are allowed to get away from the field.

Startling statistics: child poverty from 11% to 19% while times are good? This reads like Dickens. One out of every five children in the province of Ontario; for every five, there's one who lives in poverty in rich Ontario. If this regime, the Progressive Conservative government in power in Ontario right now, keeps on with its philosophy of taking money from the middle class, who pay the freight, and the poor and giving it to the rich, who need it less than anyone else, where do you see Ontario going in two, three, four years from now?

Mr Ryan: Let me start off with, you made reference to the Progressive Conservative Party. I think that's an oxymoron. There's nothing progressive about this government.

Mr Pouliot: I agree.

Mr Ryan: In terms of where we're going, what we don't ever hear this government talk about when they cut welfare benefits by 21%, when they try to scapegoat people on welfare as welfare bums sitting at home swilling beer, is that 500,000 children in this province had their benefits cut too by 21.5%. That's why we're seeing a skyrocketing increase in poverty among children. That's why we're seeing evictions skyrocketing in the city of Toronto by 67% more usage of emergency shelters last year.

Clearly we're on the path of destruction of social programs here if this government gets re-elected. It's obviously important for all Ontarians to wake up and get together in a huge coalition to make sure these scoundrels get voted out of office in the next election, because we in this province cannot afford to have four more years of this type of government. It only caters to those at the higher end of the income scale, the business community, and to hell with everybody else.

Mr Baird: Thank you very much for your presentation. I took particular note of your comments with respect to the number of inquests conducted into children's deaths. That's obviously of concern to all of us of all parties. In 1997 I believe there were about eight inquests conducted, of which six involved deaths prior to August 1995. That's of tremendous concern to all of us on a non-partisan level. We obviously want to do a better job. Whatever we're doing, we can do more, and we've got to do a better job on that.

I did want to quickly mention one thing. My colleague the member for Lac-Nipigon talked about the one in five children living in poverty. That was the result of the five years of his government. In 1989 the rate, according to your report, was 11%, and when the NDP left power it was 19.1%. There was no social justice in an $11-billion deficit. There was no social justice in rocketing government spending. In fact, it made this situation demonstrably worse and that's the result.

I guess I just have to wonder. You represent over 180,000 members. Those are the same folks who elected us. In my community the support for work for welfare approaches 90%, right across the province. Those are your members who are supporting that work for welfare. In my constituency 90% of electors in Nepean went to the polls and put an X beside a candidate who supported work for welfare. I just wonder.

It's an honest attempt to try to improve the economy. Our strategies to balance the budget are an honest attempt. The last government, which you helped elect, sir, brought in the social contract, opened collective agreements. That was not the option; our strategy is not the option. Is there an option? Is it realistic to expect any political party to come forward with a policy platform that would satisfy the union leadership in this province? Is that a realistic expectation?

Mr Ryan: There are several topics you get into there. First off, let me talk about the stats of 11% to 19.1%. It was the Social Planning ServicesCouncil of Metropolitan Toronto, an independent group in this province, that laid the blame squarely on your government for the increase from 11% to 19.1%.

Mr Baird: Those are 1995 figures, sir. That's as a result of the NDP government.

Mr Ryan: The 1997 stats that just came out very recently laid the blame on the increase directly and squarely on your government.

Mr Baird: But 20% is the figure you provide for 1995. Those are your numbers, not mine.

Mr Ryan: I can tell you what the facts are. Whatever the typographical error might be in there, I'm telling you that your government is directly responsible for raising child poverty in this province from 11% to 19%. That's an inescapable fact, sir.

Mr Baird: But your numbers, sir, don't suggest that. Your numbers say 11% to 20%.

Mr Ryan: I'm telling you, the typo of 1995—

The Chair: Please, Mr Baird. We've asked the man a question and we're going to let him answer it.

Mr Ryan: In terms of workfare, you talk about CUPE supporting this. Let me tell you, sir, the reason you have to move your workfare program from the public sector into the private sector is purely because CUPE has fought you every step of the way and has kept you out of every municipality, every school board, every social agency, United Way. Right across the board we have kept your so-called workfare program out of our workplaces.

It is not supported by CUPE members, I can assure you, and it is losing support in most communities. In particular when you start to move it from the public sector into the private sector and people in the private sector begin to feel threatened by your workfare program and their jobs will feel threatened, let me see how much support your workfare program will have.

The Chair: I have to interrupt you there and move on to the Liberal Party.

Mr Gerry Phillips (Scarborough-Agincourt): I'm trying to get a handle on the government's priorities and your recommendation. I always carry around with me this chart which shows the tax cut. What it shows is that people making more than a quarter of a million dollars a year, $250,000, are going to get a tax cut that's worth $500 million. That will be, if you will, the lost revenue to the province.

Mr Ted Arnott (Wellington): Does that factor in the health care levy?

Mr Phillips: Actually, it does. The Conservative members don't like to hear this so they're interrupting me, but it includes the Fair Share health care levy. Just so the people at home understand, that's $500 million of a tax break. As I say, people making a quarter of a million dollars may very well need it but it comes at a cost and that is the cost you point out in the hospital sector.

The Ontario Hospital Association was in yesterday sounding some alarm bells for us. They're a very responsible group. They said an accumulation of small problems from fundamentally flawed policies turns into a crisis. They were alerting us to a crisis in our hospital sector. We've found $500 million for people making a quarter of a million dollars a year in the province. That was luckily available in the finances of the province. But it's been at the expense of, as you point out, cutting $800 million from hospitals.

Can you humanize it a little bit for us? When we talk about dollars here, we lose in many respects the human touch. You've talked about child poverty. But unless we really internalize it and know an individual we can visualize suffering from poverty, unfortunately we can just gloss over it. Similarly on cutting hospital spending — many of your members work in hospitals — can you help us understand the implications of those hospital cuts in human terms?

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Mr Ryan: We do. We've got about 22,000 hospital workers and approximately 20,000 long-term-care workers, primarily nursing assistants, RPNs and people who work as orderlies, technicians, ambulance drivers, paramedics, so we're on the front lines. We're seeing it all the time. We're currently in the process of conducting a survey of all the ambulance services that we represent in the province, and the feedback that's coming in is quite horrifying. Most hospitals are on what they call bypass, where they're actually closing down the emergency wards and redirecting ambulances, with critically ill patients in some cases, tens of miles if not hundreds of miles away from the rural communities. It isn't just happening in the city of Toronto where it makes the front page of the Toronto Star; it is widespread.

The part that really gets to the paramedics is that they know for a fact that just up the stairs from all of the emergency departments lie corridors of empty beds, shut down because the Tories won't put the funding into the hospitals. We know that they could open some of those hospital beds and alleviate some of the pressures.

From the long-term-care perspective, we know that there are people in the chronic care departments who could be in long-term care, but we don't have the long-term-care facilities. I believe it's 5,000 in the city of Toronto alone waiting to get into long-term-care facilities.

It really is pretty sad. Today most people probably read the Toronto Star. A child died of a flesh-eating disease, and they say he had to wait three hours in the emergency department in the hospital he went to in his part of the province. It is a life-and-death situation that's developing in this province, and what's so sad about it is, it is being

created by the Tories. This is a problem of their making. We've had successive governments with problems in the health care system, no question about it; we have never experienced the crisis that we're seeing today in health care.

The Chair: Thank you very much. I must interrupt you there. Our time is up, but I do thank you for your submissions and thank you for attending, sir.

Mr Phillips: Mr Chair, I found the announcement by Hydro yesterday important to our deliberations, and I wonder if there mightn't be either an opportunity here for someone from Hydro — that would be my preference, just so we understand, because I think $31 billion of the contingent liability is an Ontario government responsibility — if we might hear from a Hydro official before we complete our deliberations. In the absence of that, I guess, at the very least, a background paper on what they were talking about yesterday.

The Chair: What is the wish of the committee? Do you wish to attempt to have someone from Hydro attend?

Mr Wettlaufer: I think it's the responsibility of a different ministry, Mr Chairman. I believe that the ministry is going to be in touch with Ontario Hydro, and I don't think there is any necessity for us to have a view of that right now.

Mr Phillips: That is crazy.

Mr Baird: I think we could certainly make inquiries. The public portion of our hearings concludes tomorrow, and each party had the opportunity to submit a list of witnesses we wanted to hear from, and we have had a full exchange of ideas. We could certainly inquire as to whether they would be available today or tomorrow, but in the absence of that, a fuller account of their financial situation, as the member for Scarborough-Agincourt has suggested, would certainly be useful, and that would certainly merit support.

Mr Phillips: I'll just go on record as saying I find the Conservative members a bit unusual here. Here we have what could have a much bigger impact on the province's budget than almost anything. We are 100% on the hook, the taxpayers, for the debt, and the most material announcement imaginable, the largest loss in corporate history in Canada, and we won't even hear from anybody. You've got the votes to do that, but I'll make sure the public understand the government won't even hear from anybody on it.

The Chair: Just a minute. There has been no decision made. I don't know whether it's appropriate to have somebody from Hydro or whether it would be appropriate to have somebody from the finance department, but let's be careful how we state — I admit that I found the statement yesterday somewhat confusing. Obviously, reading the newspapers this morning, others did too. Different papers have different comments on it.

However, at this point in time I do not wish to delay the proceedings. I will deal with it first thing this afternoon if you want to come back and raise the issue. At the very least I think we could have some kind of a written report, but I think it should come from the department of finance.

Mr Phillips: Why don't we just deal with it this morning rather than interrupt a speaker this afternoon?

The Chair: I would start early this afternoon to do it or at the end of this afternoon's hearing and give the parliamentary assistant for the minister an opportunity to report back.

In any event, to keep on schedule, the next presenter this morning will be the Daily Bread Food Bank.

Clerk of the Committee (Ms Tonia Grannum): They're not here yet.

The Chair: I'm advised that these people are not here at this —

Mr Phillips: There we are. We've got time. Perfect.

The Chair: I'm suggesting that we have the parliamentary assistant for the minister report back with regard to an appropriate person to attend, if in fact we have room to attend.

Mr Phillips: Great.

DAILY BREAD FOOD BANK

Ms Beth Brown: Sorry we're late.

The Chair: Thank you for coming, and welcome. Please proceed.

Ms Sue Cox: Thank you very much. We got Bathurst Street bridged today.

I'm Sue Cox. I'm executive director of the Daily Bread Food Bank. With me is Beth Brown, one of our researchers.

First of all, thank you so much for letting us come here. It's a real privilege to be able to let you know what's going on in the food bank world. The documents that you'll receive today from us include not only our brief but a report, which is now quite a few months old, about food bank use across the province of Ontario. Our perspective is not just looking at what's happening in the greater Toronto area, although that's what we know best, but we also like to take a look at the provincial statistics and what's happening out there.

Let me just give you a quick backgrounder. First of all, as you may know, Daily Bread itself is the largest food bank in Canada. The primary area that we serve is the greater Toronto area, and we do that through neighbourhood-based organizations in community centres and churches and similar places right across the GTA. We're moving now about one million pounds of food every month into those programs. In addition, we're quite closely connected with the Canadian Association of Food Banks. Because of the preponderance of the food industry in the greater Toronto area, food donations to national sources actually flow through Daily Bread, so the Canadian association offices are at Daily Bread. We try to keep a finger on what's happening in our local area, in the province of Ontario and right across the nation right now.

We're not here — and we often have to say this over and over again — to ask you for help directly for the food banks or to propose that this is a way that you ought to be considering moving in the future, nor are we raising the issue of any particular tax breaks for charities and food

banks. What we want to do is put before you the experience of low-income people across the province of Ontario so that this can enter into your deliberations as you move forward in the budget process. We think that too often their experiences have been forgotten or neglected in the enthusiasm around fiscal issues and deficit reduction.

Essentially what we're asking you by telling you these things is that the province of Ontario not pursue any further budget savings on the backs of low-income people, particularly through the social assistance system. That effect has been devastating. We see that devastation in our member agencies and at our own site on a daily basis.

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We'd also like to bust a few myths about the people who use food banks, because we fear that a lot of these decisions that are being made are based on myths — for instance, myths of the dependency of food bank users or that somehow they have to be shaken out of laziness or some other kind of personal moral failure to move forward. This is not our experience. These are not the people we see. We just see people going through temporary tough times, and we think it would be good fiscal policy in this province to give them the support they need to move out of poverty and to move forward in their lives.

To that end, we've also done a bit of a comparison from 1995, which was prior, of course, to the cuts to welfare, and 1997, the year of our last annual survey. Our research is based on surveying food bank users across the GTA in a random sampling. We have a great deal of information and data about them which we're always happy to share with you if we can help you in your understanding of issues.

Before I turn things over to Beth to tell you a little bit more about some of these details, let me just say that as far as food bank use is concerned, of course we saw very dramatic rises following the welfare cuts. This year we did see a small decline in the need for food banks that reflected some improvements in employment. Unfortunately, they've edged up again towards the end of 1997. But they were down a little bit and I think that reflects the fact that as people get back on their feet, they once again become self-sufficient. They don't need welfare systems, they don't need food banks, their lives improve.

One of our frustrations with some proposed policies, which I won't get into in any detail, or some of the changes being made in welfare now, is they actually stop people from moving forward. They make it more difficult for them to find jobs and more difficult for them to move, as I say, towards self-sufficiency, because I think one of the myths that's out there is that following the welfare cuts people did continue to cope. The implication there is that things were too cushy for them before. But I'm here to tell you that our data show quite clearly that the only reason they were managing and staying healthy is because of their increased need for food banks: increases in frequency, increases in the amount of food they need and increases which, quite frankly, we were not able to meet. We simply couldn't keep up with being at the bottom of the downloading pile.

Secondly, I have to say that it is not just provincial policies that have caused that situation but also many federal policies, particularly the reduction in access to unemployment insurance, which meant that in effect welfare became the program for unemployed people. But sorry, the culpability lies across all levels of government and today we're here to talk to you about provincial policies.

Let me turn you over now to Beth. She's going to tell you a little bit about what we see in the data.

Ms Brown: Thank you very much for letting us appear today. If you compare our 1995 sample to our 1997 sample, the trend we see increasingly in the food bank and also in the general welfare assistance population across the province is more families supporting children having to rely on general welfare assistance. In 1995, about 35% of respondents supported children; in 1997, about 50% support children. If you're looking for the roots of child poverty, declining income is definitely a key in that.

The folks that are supporting kids and are forced to turn to food banks to support those children are increasing, and they're also increasing in the Metro Toronto welfare caseload when you do a comparison. I want to put that out there, that there is an increasing group of children that is coming to food banks, unfortunately, because of declining welfare income.

We also have found, on a positive note, that the myth of welfare dependence has not taken root in Ontario. People are moving in and out of food banks and off the welfare system. When employment picks up, our numbers go down, so there's a real, close tie there. We just want to stress that one.

I guess when we get to the heart of the matter for food banks, and the reason we're interested in talking to you folks, because you're numbers people, is our numbers are showing that there's a frequency-of-use change that has happened in food banks this year that we are very concerned about.

Prior to the welfare cuts in 1995, people came to food banks about once very two months. Now we're seeing them coming about eight times a year. So there has been a real change in the desperation, or at least the depth of poverty people are facing, and we want to challenge the finance committee to come up with some good strategies around fiscal finance and also social policy, because I know a lot of it is set these days in the context of deficit reduction. We just want to put it out there that these folks are probably not able to sustain another hit, if you're looking for more savings in your budget.

If I quickly look at the single person's dilemma, we are looking at people, on average, in 1997 who are living on about $489 a month, so their income is well below the welfare maximum of $520. It's a significant decrease. These folks are the ones I know many people are talking about: Could we reduce rates for the single employable? We're here to point out that the single employable group has been hit hardest by the welfare cuts and has actually become most in need of food bank use.

If you look at their patterns of use, 14% of single food bank users come to the food bank every month, once a month. The average in 1995 was about once every two months, and only 3.5% visited a food bank more than once a month. By 1997, we're seeing a dramatic change. Twelve per cent are coming to the food bank more than once a month and those folks have to really show they are in need because most food banks will only serve people once a month and they are very strict on their own rules, so these folks are living without income.

If you look at the single after-rent income, 10% have no after-rent income in 1997. That means they pay their rooming house fee and they have absolutely nothing left. So food banks have suddenly stepped in to fill a gap that has been left in the social policy field by the government. I am really talking about the single people because I know that's something this government has talked about and considered.

The only fair jurisdictional comparison for us, I think, is Vancouver, British Columbia. On a per annum basis, they pay about the same as a per annum basis in Ontario. I guess if you're looking to compare Ontario to New Brunswick, Newfoundland, Nova Scotia, Quebec, Prince Edward Island, you're really looking at the wrong end of the country. The only comparable housing costs in Canada are Vancouver. If you really want to set rates, I think you should do an actual study and actually figure out what it costs and get the real numbers, as opposed to using artificially inflated averages of welfare rates across the country and then just saying, "We're moving to 10% above the national average."

It's just not a fair rate-setting process and it's also not a good fiscal policy, because it's not based on real numbers. I'd like to encourage, folks, if you were to pick on any group, please don't choose the single employable because they can't really sustain further problems, and we can't sustain them any further from what we are already doing.

I can talk about single parents and children later in the questions, but I just wanted to put it out there that they are pretty vulnerable because they tend to be an easy target for public policy. Michigan cut off their single employable people. I am just hoping that's not where we're moving in Ontario and that's not the way the budget is going to be balanced.

Mr Pouliot: You shouldn't tell them that they're vulnerable.

The Chair: Please don't interrupt.

Ms Brown: Thank you for your time. We'd be happy to answer your questions. I'm sure Sue has some more points.

Ms Cox: Yes, just a couple of things. We do have a couple of recommendations. We apologize for moving into the area of social policy, but I think that fiscal policy so often has guided it that it's appropriate.

But we do have to point out, if we wanted anything, we'd say that really poor financial thinking is involved in workfare, which is costing an awful lot of money, and we strongly believe that it's a policy that's not a cost-effective approach to getting people back to work, but in many instances inhibits getting people back into the workforce.

I'd just like to point out that there are other policies which do this. For instance, the latest releases from Ms Ecker's office indicate that drug cards are going to be withdrawn from people who were working at very low wages, which is hardly an incentive to get back to work if you have high pharmaceutical costs. That kind of thing is social policy indeed, but it's poor fiscal policy because it's not providing the support people need to get back to work.

Anyhow, questions?

1050

The Chair: Thank you very much. We have almost three minutes per caucus, starting with the government caucus. Gentlemen, I'm going to have to tell you that when you know how much time you have, three minutes, if you take three minutes to ask the question, you're not going to allow them an opportunity to respond. I know that sounds basic, but I have to say it after six days of what we've —

Mr Phillips: You've just taken three minutes to tell us that.

Ms Cox: So it sounds like we get an extra three minutes, right?

Mr Jim Brown (Scarborough West): Being an accountant, I see all these numbers in your report. With accounting, you have dollars and cents, the cheque comes in and you get the cheque, or in marketing and research you do a sample and you have coefficients of reliability. How do you do all these numbers? Where do you get all the —

Ms Brown: The data?

Mr Jim Brown: Everybody who comes in fills out a form or you tick them off or something like that?

Ms Brown: No, actually the process is quite involved. We've been doing it since 1989. We have a research steering committee that involves academics and professional researchers. We also have a PhD researcher on our own staff who sets up the sample to be a representative sample. We look at how the programs draw down food across the city and then we create a sample based on the larger users, so we interview in about 35 programs, a face-to-face, 25-minute interview. We train the surveyors, send them out.

Ms Cox: To 900 people.

Ms Brown: Yes, we end up surveying 900 people, which is quite a good sampling of our population.

Mr Jim Brown: It sounds like a pretty big staff too.

Ms Brown: It's actually very volunteer-driven. What we do is take university students and train them; we train a lot of university students.

Ms Cox: Why don't you come in and we'll show you? We'd love to have you.

Mr Jim Brown: I will. I'll come down.

Metro social services has a program, they've got a van and they've seconded a driver and they take some people on welfare to some of the smaller communities where the vacancy rate may be 20% or 25%, whereas it's less than 1% in Toronto. The cost of housing is a fraction of what it

is in Toronto. They get into other communities. What do you think about that program?

Ms Cox: That's something I wouldn't weigh into in a minute because I think a lot of the communities involved in receiving these people are not particularly happy about it. I can see your point. It's much better to be in a place where the rent is cheaper, but it's only as good as the jobs and services available. There isn't a kind of blanket, magic bullet solution there, I think.

Mr Phillips: I appreciate your presentation and the work all the food banks do in the province. It's a tremendous job.

I just want to chat a little bit about workfare because it's quite a divisive issue. As one of the Conservative members said, in his community probably 90% of the people support it. I suspect that's the case across the province. I'm not sure everybody understands it, but it's seen as, "If you want something, you've got to work." You've indicated some considerable concern; it's your number one recommendation.

Can you put it in some kind of human, understandable terms — I'm not trying to say you don't put it in understandable terms — so that people who may support workfare can understand why you have problems with workfare?

Ms Cox: It's pretty uppermost in our minds right now because of the huge number of people who are workfare-eligible who are volunteers in the food bank right now. They're approximately a quarter of our volunteer force and put in probably 50% of our volunteer hours. In point of fact, they're effectively not going to be able to volunteer when they're called in to their worker and assigned to workfare.

If they did a workfare placement at Daily Bread — we're actually not going to participate in workfare, but if they did that — we would only have them for six months. With new people coming in, there would not be an opportunity to provide appropriate training. They would only be able to do 17 hours in the food bank, the rest of their time being involved in job searching. I think we would take away from them a supportive environment which exists for them now which also does offer opportunities to seek work.

The irony of all of that is that if we were to be a workfare site, we would in fact be paid instead of giving the extra money to the person who is volunteering. We would be paid to take them in, yet we would have to incur tremendous costs just in the monitoring and paperwork required by the government. It's very hard to see how it makes any fiscal sense at all. Workfare just doesn't work. People want to work and people will volunteer, given the opportunity to do it, but to force them into that situation is just — frankly, we also have some philosophical differences, but even from a practical perspective it makes no sense.

Mr Pouliot: Mesdames, bienvenue. I have two questions. By many accounts, the economic situation in Ontario is as good as it's been in recent years — in fact, many more will attest that it's better than it's been in recent years — yet your presentation tells us that the number of people for whom you provide that essential service has indeed increased, which would a priori go contrary to an economic recovery.

My second question is, has the makeup of your client group been pretty well the same over the years? Is it predictable? What are the backgrounds of people? Are you able to tell us in your statistics, as we look to the makeup in terms of education, is it male/female? You give us part of a sample, but you don't give us the whole picture.

Ms Brown: Just to speak a little bit about that, we consciously chose not to do a lot of demographics in this group because we really wanted to focus on income and the relationship. Education: As a general statistic, about 30% have done some post-secondary education. I just wanted to let you know that if we didn't look at the whole demographic, there are a lot of myths there that are also —

Mr Pouliot: With high respect, Mademoiselle, not in the context of demographics. She is the one who mentioned demographics. Hansard will take notes and I want to correct.

Ms Brown: When I look at the sample and I look at how it has changed, the overview between 1995 and 1997 shows that there are more families supporting children. I think there used to be a lot more single people using the welfare system but also using the food banks in emergencies, and I think we're seeing a shift. While there has been a wonderful economic recovery happening in this country, there has not been a job creation strategy by any level of government that would engage those people in jobs. There has been a climate created but no actual sustainable job creation by the federal Liberals or the provincial Tories.

Sadly, we see the folks who used to have good jobs. When you look at our sample, we also asked them, "What was your old job?" They'd say things like "teacher's assistant," "nurse's aide," "chef," "theatre worker." They had good jobs and those jobs don't exist any more, whether it's through downsizing of the public sector or whether it's through hospital restructuring where they don't keep their janitorial staff. We see those folks who had good jobs and now don't have good jobs any more and are trying desperately to reconnect. Most of our sample say they're looking for work. If this government wanted to launch a big job creation strategy, we'd be right there behind them.

The Chair: Thank you, ladies, for your presentation and your time this morning.

Ms Cox: Thank you for your patience in waiting for us.

1100

CANADIAN CHEMICAL PRODUCERS' ASSOCIATION

The Chair: The next presenter this morning is the Canadian Chemical Producers' Association. Gentlemen, welcome and thank you for coming.

Mr Norm Huebel: Good morning and thank you for the opportunity to appear before you. As you said, we represent the Canadian Chemical Producers' Association.

My name is Norm Huebel. I'm the Ontario regional director for CCPA. I'll let my colleagues introduce themselves.

Mr Mike Hyde: Mike Hyde, Dow Chemical Canada.

Mr Dave Podruzny: Dave Podruzny, Canadian Chemical Producers' Association.

Mr Steve Moran: I'm Steve Moran, with Nova Corp.

Mr Huebel: Dow and Nova are members of our association.

I'd like to take a couple of minutes just to talk a little bit about the association to give you some perspective as to who we are. We have 72 members manufacturing 90% of Canada's chemicals and plastic resins. That's on a national basis. In the province of Ontario we have something in excess of 50 of those members with facilities in Ontario. Our members' shipments in 1997 were $16 billion and over 55% of those shipments are exported, so certainly we contribute to any type of potential surplus, which I'll come back to later. All of our members, of course, compete globally and invest globally and every one of our members exports.

We are a keystone industry for Ontario and virtually every other sector of Ontario's manufacturing economy uses our outputs as necessary inputs to their products competitively. A good example is the automotive industry where I think something in excess of $3,000 per automobile represents chemical products.

We have an initiative called Responsible Care which is probably one of the most successful exports from Canada. It is an initiative that relates to continuous improvement in environmental health and safety performance. As I say, we've exported that initiative to 42 countries around the world.

Most of our manufacturing has been concentrated in Ontario. Right now about 47% of the manufacturing facilities are in Ontario. The concern is that this has dropped from 55% 10 years ago. We are growing slower here than elsewhere in Canada. We do undertake full competitive assessments of the business and policy environment both federally and regionally and you will see that as part of the package we've distributed to you there is a thing called the competitiveness scorecard. We introduced that to the committee last year and it is a summation of all of the factors that an investor will consider when he looks at investing somewhere. What it does is rank Ontario against the US Gulf coast, outlining advantages, disadvantages versus that jurisdiction, because this is the reference jurisdiction for investment in our industry.

We have also developed analytical tools and computer models which assess Ontario's tax and total competitiveness. So we're not just talking about qualitative analysis here, we're talking about quantitative analysis of the various factors.

Mr Podruzny: Maybe if I could just interject for a second, we have taken those competitiveness models and shared them with the public servants in both the finance and economic development ministries so that they could use the models themselves in their due diligence process. We're not hiding them back here; they're available for anyone to scrutinize.

Mr Huebel: Thank you, David.

What we want to talk to you about today, though, are three major issues that we see as impediments to investment in Ontario and part of the reason that the sector is not growing to the degree we would like it to grow.

To put it in perspective, if you look at chemical sector investments on a North American-wide basis, there's something like $55 billion being invested in North America in the chemical sector. Of that, there's about $4 billion going into Alberta and Ontario is getting less than 1% of the investment. That is the concern.

You heard from a group earlier, which I thought was quite fascinating. They were talking about job creation strategy and high-paying jobs. That's one of the major drivers for us. We want that investment here. We want the plants built in Ontario as opposed to another jurisdiction. That's why we work on what I would call the competitiveness impediments that sit in Ontario.

The other thing is that if you look at Canada as a whole, we have a chemical trade negative balance of $5.8 billion, whereas the US has a $25-billion surplus. We want to do something about that.

To come back to the issues we want to address, if you look at the competitiveness scorecard, there are quite a few factors there, but if you get to the bottom line they don't have the same weighting. Frankly, within the factors that are there, there are a couple of very large ones that stand out. One is feedstock costs and availability and the other is construction labour costs. If those factors are not right, it doesn't matter what you do with all the rest, you won't get the investment.

One of the major problems we have right now is construction labour costs. Ontario is just not cost-competitive. Construction labour costs are higher than jurisdictions, such as Alberta, Texas and Louisiana, which are competing for the major petrochemical investments. We noted this year. We indicated the fact that we were working primarily with the Ministry of Labour to attempt to do something with respect to that non-competitiveness on labour costs.

I guess we've now come to the conclusion after almost two years of work in this area that we have three choices. Number one, if we don't do something there will be no major investment in this province. The second is that we continue to deal with the problem via the modification of the Labour Relations Act. The third thing, and I guess that's why we're presenting to the finance committee and it certainly is not our number one choice, is to change the corporate tax structure sufficiently to overcome the disadvantage and attract more than token new investments. Something such as the introduction of 100% capital cost adjustment would be required if we do not change the competitiveness disadvantage we have in the construction labour costs.

David, I don't know if you'd like to add anything in that area.

Mr Podruzny: Again, we don't come at that nice round number of 100% without going back to the modelling process. We've looked at the 7% or 8% construction cost disadvantage for an Ontario location over a Gulf

coast location, which is where we're competing for investment. We've looked at the tax structure there and here and the overall competitiveness of the two jurisdictions. We have a full competitiveness model.

Norm mentioned some of the attachments. There is a sheet in here which compares the corporate tax competitiveness of different jurisdictions in Canada and the United States. Ontario comes out looking pretty good on balance. It has a tax competitiveness which is on a par with the major competing areas. But if you were to look at the full competitiveness, taking into account feedstock costs, construction costs for the capital facility, transportation costs to market and transportation costs for raw materials in, operating costs of the facility, you end up with a disadvantage that is heightened by this construction cost up front. To reduce that 8% or 7%, depending on the kind of project, to a par on the Gulf coast would require introducing about 100% capital cost adjustment write-off on the new equipment investment. That would bring you down 1.3% of the 1.4% in the full competitiveness model. There is a model. As I mentioned before, we've shared that with the finance officials so that they can validate the numbers.

Mr Huebel: There's just one thing I want to add before I lose it. I think the lady from the food bank before us talked about high-quality jobs such as janitor types of things. We're talking about jobs in chemical plants on an average paying $55,000 a year. That's the kind of jobs we're talking about and that's why we feel it's critical we have to do something. That's the kind of jobs we want to attract, not hamburger flippers at McDonald's.

Mr Hyde: I just wanted to give an anecdotal example of where this can come back to really hurt us, this construction labour cost issue. If you look at the labour rates in the Chemical Valley right now, they are about 30% higher than down on the Gulf coast. When you put that all together with the engineering costs, the costs of equipment, wintertime construction costs, what we end up with is a bottom line that is about 8% more expensive than putting a plant on the Gulf coast.

One of the things I really try to do all the time, as Norm has mentioned, and my colleagues in Ontario, is to fight to get the Ontario jurisdiction as competitive as Texas. We have just recently been very fortunate in that we have, competing with our colleagues around the world, won a new plant that we're going to be putting in Sarnia. The cost of this plant is about $100 million and we were able to get labour rates for the construction of that plant that are cost competitive, and that's the major reason that we were able to get the investment.

However, we have another opportunity coming up, and guess where our competing jurisdiction is? It's Texas. The plant is four times as expensive. It's around $400 million. That 8% discrepancy now, the cost of an extra $32 million to put that plant in versus the other smaller plant, is just too great. Our guys are saying in Sarnia: "We're not even going to compete. We are not even going to submit a bid." The reason why we can't use the competitive labour rates is that with the $400 investment you really need the talent of the trades for the major unions. So we have to pay the higher labour rates. It's an anecdotal example of where it really goes back to to haunt us.

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Mr Huebel: Steve, do you have anything you want to add at all?

Mr Moran: I think it's just very, very important to recognize that the single biggest cost in running our chemical operations is feedstock. It represents about 65% of the cost of our manufactured product. We in Ontario can have little control over that because our feedstock in North America is located in the province of Alberta and the US Gulf Coast. When we huddle together with our senior management to review capital programs, we take a look at those cost factors that can be readily controlled. Feedstock is not controllable, so the next-biggest cost factor we have control over is the cost of labour. We operate in an extremely capital-intensive industry. Nova is currently building a $1.2-billion chemical plant in Alberta, which will create 2,500 construction jobs in 1999. That just gives you a little flavour of the relationship of construction costs to other costs.

Mr Huebel: The next issue I want to talk about is electricity costs. The message here is, "Stay the course." We need competition introduced into the electrical system. There is a graph in the package that shows you where the electrical costs in Ontario are versus other jurisdictions in Canada, and you can see they are right at the top. That is a big detriment to some of our members. For some of our members, particularly people that manufacture industrial inorganic chemicals, electricity costs can represent 45% to 50% of their total costs. That's why our message here is, "Stay the course and let's get competition in the system." We need that in a lot of areas to basically attract investment.

The third issue we really want to talk about is regulatory burden and user fees. Obviously regulatory burden can impact on competitiveness, and we are working closely with the Red Tape Commission on a project to identify, quantify and address that impact. One of the things that's happened in the past is that when they put a lot of regulations in place, they look at the impact within that particular ministry or silo. There has been no way in the past of looking at total burden across all ministries, and that's the project we're working on with the Red Tape Commission, to try to identify what that burden is and how it compares with the other jurisdictions.

One of the big things that we are throwing on the table for this committee, and one of the concerns that we have, though, is the whole issue of cost recovery user fees. As budgets have been cut back in the ministries, some of the ministries have decided the way to make up for the lost costs is to impose user fees on particular stakeholders. I think the committee has to be aware of the fact that that simply is another way of increasing taxation.

The concern we have is that there have been no basic principles put out or agreed to by the government to be used by the various ministries if they're looking at user fees, and we feel that is a task that should be undertaken

by either the finance department or management board. There should be some types of principles and rules or guidelines that are laid down for the ministry if they intend to get involved with the implementation of user fees.

Mr Podruzny: One of the things we have to stress here is that if there is no option, if there is no other campfire to go to in imposing a user fee, what you have done is inserted a tax. This is a fundamental that we believe has not been put into our tax model, but I think by this time next year we will do that; we will insert the cost of user fees into the model and demonstrate what impact that has on our overall tax competitiveness versus other jurisdictions.

Mr Hyde: Another comment I'd like to make as well is that at present, the Ministry of the Environment is looking at a user fee or a cost recovery process for the movement of hazardous waste in the province of Ontario. Our thought, and we're working closely with them, trying to get them to understand that principles and criteria need to be developed, is that that's the wrong place for this to be built. It needs to built with some non-regulatory body within the government as basic principles and criteria for all ministries to operate under as user fees or cost recovery programs are put in place.

We strongly recommend that the government needs to look at whether it be management board or the Ministry of Finance that leads the development of those principles.

Mr Huebel: The last point I'd like to make before we go to questions is that the competitiveness score card you see here was updated after last year's budget. Again, once the Ontario budget is cast this year, it will be updated and distributed to all the members and it obviously will be looked at very closely by any of the companies that are considering investments.

The Chair: Thank you very much, gentlemen. We have about four minutes per caucus, commencing with the Liberal caucus.

Mr Phillips: I'll say the same thing I said last year. I really appreciate your report card and I've actually used it as an example with other industries just because I find it helpful for us elected people to have some as-objective-as-we-can-get measurements of how Ontario stacks up versus other jurisdictions because we all want to see business expand here and to drive our economy. I find this extremely helpful and I appreciate it. You did raise the same point last year on labour and I think the message for us was that jobs follow investment in your industry like any other industry, but if you don't get the capital investment in the plants, it goes without saying that you don't get the jobs.

Just on the regulatory burden and user fees, we've heard a lot about privatizing government services and letting the private sector take over things, and I think the government has moved on things like your elevator licensing and what not being essentially privatized, and letting the marketplace handle it; you know, that free enterprise should be able to keep the price down. Your suggestion here, I think, is that rather than unfettered free enterprise when they privatize waste disposal, there should be some direction, guidelines or restrictions put on fees. Can you help me a little bit there with the possible conflict between privatizing these things and letting the marketplace handle it, and still fettering the private sector when you do it?

Mr Podruzny: Our principal concern here is where you have a monopoly, where you privatize something but you really only have one place to go to get your service. In that situation if there are no cost disciplines and you are functioning as a cost-plus centre, you end up with some of the inefficiencies that have run through for any other monopoly situation, such as Ontario Hydro. That is our concern. In those situations where you have no alternatives, you need cost disciplines. You need an external discipline to the process of what that fee would actually be.

Mr Hyde: Gerry, just another comment is that one of the principles we are putting together right is alternatives. The service that is being delivered, is there an alternative to it or should there be an alternative to it that could be even more competitive? We need to examine that to determine whether a monopolistic situation needs to remain or you can have competition.

Mr Phillips: I'm really interested in the labour cost issue because I'm not sure it's just your industry that impacts on this. It seems the problem is a bit boxed and doesn't look like it's going anywhere. At least, that's my interpretation of your comments here. Have you any thoughts, apart from your suggestion that an alternative may be to go to an accelerated capital cost depreciation schedule of some sort — is that, in your opinion, the most likely solution to this or is there a more practical one? I shouldn't say "more practical." I don't mean that as in practical, but less costly.

Mr Huebel: I think the most practical area to handle the construction cost issue is through changes to labour legislation. Potentially, because of opposition from labour groups, it may be more politically difficult. The thing that becomes difficult to understand in some regards is the reluctance to have changes in that area from organized labour, particularly when some of the construction trades have greater than 50% unemployment rates in jurisdictions such as Sarnia.

The Chair: Mr Huebel, I'll have to interrupt you there and move on to the next caucus. Mr Pouliot may wish to follow up on the same question, though.

Mr Pouliot: Yes, I thank you very kindly, Chair. Welcome back, gentlemen. I'm intrigued with your corporate tax competitiveness model, your results summary. You mention on several occasions the cost of doing business through labour, if you wish, the cost of labour, but I take from your presentation that you wish to emphasize the construction labour costs, because in the same tone you pride yourselves, and why not? You make a very positive contribution. Your average worker gets $55,000 per year.

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I could understand hydro being an ongoing cost; I can understand people who work at the plant being an ongoing cost. Why the catalytic importance of the construction costs? After all, you're talking about a one-shot deal. If

I'm to draw a comparison with an auto plant, sure they will spend $1 billion at one plant, but they hope the plant will be successful for 10, 12, 15 years and that the cost of doing business per unit will still end up being cheaper than the competition.

Mr Huebel: That's a very easy question to answer. It comes down to return on investment with respect to a facility and it's got to do with a time value of money. If you look at a plant and you build it for 20 years, you're right, there is an operating labour cost advantage in Canada. If they're spread out over 20 or 25 years, the life of the plant, the problem is that construction labour cost is up front. It's today. You spent the $20 million or $200 million or $300 million today and that's got a certain value.

If you've taken the advantage, taken 20 years out and discount $20 million or whatever the number is, bring it back, it's worth maybe $1 million or something. So the problem is that you can't get the return on investment with labour that is spread over 20 years versus something that is up front.

Mr Pouliot: I understand. Thank you. I want to go back briefly to Ontario Hydro. The chemical industry uses electricity, needs electricity, like Alcan Aluminium. Maybe the analogy, the parallel is not filled with validity but it's a very important component. Your chart shows that you're less competitive in terms of electricity rates at present here in Ontario than other jurisdictions. We have the paper today and it says "Ontario Hydro" — incidentally, if it were not for the backing by the province, this corporation is literally bankrupt — owes $32 billion, plus $6.3 billion, because successive mandarins didn't do their homework. "No rate increase at present." Are you watching this situation very closely indeed?

Mr Podruzny: I can assure you that the investment community is watching it very closely. It will be more difficult to overcome the impression that's going to leave. What has been suggested in the deregulation process would be to offer other options for sourcing electricity such as developing your own facilities, cogeneration facilities. There are many advantages within a chemical complex to using some of the steam generation and what not and producing power onsite. This also has advantages in reducing greenhouse gas emissions and so on. So there are solutions out there. You're right; we're very concerned with that and with the image that projects for attracting new investments. When the option emerges for other sources of power and competition, we believe there will be an opportunity to give a better picture, a better story.

The Chair: Thank you. We move to the government caucus, Mr Hastings.

Mr John Hastings (Etobicoke-Rexdale): Thank you, gentlemen, for making this fascinating presentation. I'm even more fascinated by your report card and what criteria you apply to some of the disadvantages for Ontario for I guess your industry or all sectors.

Mr Huebel: This is for our industry.

Mr Hastings: Okay, given that it's only your sector, then, would it be fair to assume as a premise that you would never have any investment in Ontario, ever again, given what has been occurring since we got elected in 1995, because it would appear as if you'd have to have probably a decade of surpluses, economic growth of 5%-plus, no inflation, low interest rate environment, no deficits, hardly any red tape, in order to just shift from a disadvantage to making it neutral. Because you are applying very rigorous criteria, I would assume, to say it's a disadvantage to invest in Ontario for your sector right now.

Mr Huebel: I think the point I made earlier is that there are a lot of different points that have been listed on the score card. They're not equally weighted. If we look at it, that's why we've addressed particularly construction labour costs. I guess the fair assumption is that if construction labour costs were competitive, there would be significantly more investment in this province.

Mr Hastings: So you weigh in on the construction labour costs as your fundamental first criterion for any future investment.

Mr Huebel: I think what I said before was, there are two extremely important things. One is the feedstock cost availability and the second is labour cost which is part of your total plant package. The actual mechanical stuff in the plant is competitive but the construction labour costs are not. If those two fundamentals are not right, the rest doesn't matter. That's really what it comes down to.

Mr Podruzny: There are certain advantages to locating in an Ontario-type area. You're close to markets, the transportation costs to the major markets, such as the auto industry, the parts industry and so on are a significant advantage over the US gulf coast. We can get product to the customer at half the transportation cost. So there are some advantages to being here. There are some disadvantages. On the overall balance, there are some upfront, very visible comparatives that make it very difficult for our members to go out and compete with their parent company for location in Ontario versus alternatives.

Mr Hastings: To what extent then is government primarily a refashioner of policy on those two items of feedstock and labour costs before you'd start looking at this jurisdiction as a favourable investment climate?

Mr Hyde: Certainly government can play a very key role in helping to solve the labour cost issue. The reversing of pipeline 9, which has also happened or will become effective, is also going to be very important for us on feedstocks as well, but we have to be aware that we'll always be challenged in Ontario from a feedstock point of view because we're not sitting right on top where the feedstock is coming from. The labour cost issue — the government can play a key role in helping us solve that problem.

The Chair: Thank you, gentlemen, for your presentation and for your time this morning.

1130

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

The Chair: The final presentation this morning is from the Canadian Federation of Independent Business, Ms Andrew. Thank you very much for attending.

Ms Judith Andrew: I'm Judith Andrew, executive director of provincial policy with the Canadian Federation of Independent Business, and I'm joined by Brien Gray, who is the CFIB senior vice-president.

I believe you have our kit before you. I just want to quickly draw your attention to the various documents in that kit. The brief we will be presenting today is entitled Performance Enhancing Measures for Smaller Firms. You also have a copy of Catherine Swift's presentation to this committee which was made a week ago, and this is in document form. It wasn't circulated at that time.

On the left-hand side of your package, there are some pieces including our Ontario Small Business Primer, which is a good document, rounding up a lot of the research in the small business area, our 1998 Ontario Outlook, and a couple of research papers dealing with banks and small business credit, as well as bank service charges. There are also three charts which I will refer to as we go through the presentation.

We appreciate the opportunity to appear today on behalf of CFIB's 40,000 Ontario small and medium-sized enterprises. We won't spend a lot of time today talking about the economic overview, as that was done by Catherine Swift last week. I will of course remind the committee that our members achieved their forecasted 3% growth in 1997 and their forecast for this year is a very positive 3.8% employment growth with fully seven in 10 new jobs expected to be full-time.

We have over the years recognized that governments don't in themselves create jobs or cause economic expansions, but there are things governments can do to enhance job creation and small business, and those would include creating conditions that boost customer demand, lowering the total tax take, especially on profit-insensitive taxes, and reducing uncertainty. The Ontario government is to be commended for returning billions of dollars to Ontarians in the form of personal income tax reductions, which we certainly see as a positive move for both consumer and business psychology, not to mention their pocketbooks. Relief on the employers' health tax and downward pressure on other payroll taxes, including the Workplace Safety and Insurance Board premiums and employment insurance premiums, are also most welcome and will reduce the penalties to small business for creating and maintaining jobs in Ontario.

Property tax reform stands out as the one profit-insensitive tax where the outcome for small business is uncertain at best, and probably negative. The federation will be continuing to apply pressure both provincially and municipally until such time as the local tax burden on small firms, including the education portion, is reduced to fair levels which support community economic development. Also, in the context of the municipalities, we would note that we are very concerned about the province's carte blanche approach to the local quasi-taxes, as we call them — the licences, the fees and the levies — which will be permitted under the new draft Municipal Act. This is something we are putting a particular focus on.

As the Ontario government heads into the final stretch of its mandate, it's certainly important not to lose sight of the less attractive but nevertheless very important issue areas requiring further attention, such as regulation and paper burden reduction, small business financing, and problems of unfair competition. Relief for smaller firms in the area of corporate income tax as well as improvements to our sales tax regime, including to vendor compensation, are also needed. We would also caution policy-makers to resist the lure of getting back into administering grants to government-selected winners.

Given the prospect of a balanced budget in Ontario around the turn of the century, now is certainly the time to establish a credible plan for dealing with the debt so as to avoid the inevitable pressures when a surplus is imminent to turn on the spending tap and plunge the province back into hot water.

I'd like to make a few more comments in the area of property tax since that one is a very burning issue, not only here in Metro but right across the province. I know that we drew to the committee's attention in our presentation last year that Ontario has the dubious distinction of being the world champion of property taxation. Total property and wealth taxation in the Ontario economy represented 5.3% of GDP in 1993, which was the highest in Canada and well above the levels found in any other developed country. Considering that the business sector is the most ill treated by this profit-insensitive local tax system, CFIB was very concerned that the Ontario government's reforms did not begin to rectify the fact that commercial and industrial property owners across Ontario pay double, on average, the taxes that residents pay, and of course the issue is more acute in Metro Toronto; it's triple the taxes that residents are paying.

When we went into the reform debate, we strongly advocated measures that would ensure the following: a guarantee of no more taxes on the business property base; a specific target and timetable for narrowing the unfair business-residential gap; tough limits on the business education portion of property tax; tight constraints on municipalities using higher mill rates to tax businesses; promotion of local spending cuts by holding local politicians responsible to voters for their program spending; and, finally, several strict penalties applied to municipalities which violate the rules.

Unfortunately, the Ontario government's legislative reforms left most of the key property tax decisions in the hands of municipal governments. Given variable mill rates and no requirement to lessen the business-residential gap, we were concerned that municipalities' lack of accountability for excessive local spending could result in the small business sector being even further overtaxed than it already is. Of course municipalities were publicizing plans to reallocate the former business occupancy tax burden, and then there's a lot of uncertainty and confusion over outcomes from reassessment, the distribution of the business education portion, and various problems with lease terms and so forth. All of this left our members extremely uneasy about their own prospects.

The government's February 5 announcement dealing with the business education portion did not adopt the share-the-misery policy that was being advocated by some municipal politicians and local business groups. We certainly agree that the problem of excessively high business education taxes in some cities cannot be resolved by increasing taxes on businesses in other areas of the province. A uniform rate for business education tax would have meant tax increases in 562 municipalities, with over 95% of them sustaining increases of more than 20%. Commercial properties would have felt the brunt of these tax shifts of over $510 million, and this isn't because they hadn't previously been paying their fair share.

All businesses are overtaxed. The issue is to get the tax burden down for everyone.

The finance minister has stated that the Ontario government should work towards a uniform rate for business education, in line with the recommendation of the business education tax review. In connection with a uniform rate and to help mitigate against some of the huge tax shifts I just mentioned, CFIB argued strongly for a small business threshold below which businesses would pay the same property tax rate as residences. We continue to advocate a small business threshold to help offset the increases of up to 15% due to municipalities recouping from small firms a greater share of the $1.6 billion former business occupancy tax. This would be an especially important protection for overtaxed small businesses in Metro Toronto, Hamilton, Stoney Creek and others.

Ultimately the only check on local spending is the accountability to voters and residents inherent in those residential taxpayers paying their fair share for the services they are enjoying. This requires a narrowing of the unfair business-residential tax gap, likely through a combination of reduced spending and shifting the burden. The calculation of the tax gap must include the business education portion, which accounts for about half of business property tax, especially now that the province is directly responsible for setting approximately one third of the total tax. The suggestion of a dollar matching program under which the province would match municipal business property tax cuts with equivalent business education property tax cuts is supportable for encouraging gap reduction.

The Ontario government's recent announcement set what would appear to be reasonably stringent guidelines on the so-called range of fairness on the municipal portion, resulting in 90% of municipalities being constrained in their capacity to increase the burden on business. This is a positive announcement and it was also accompanied by an indication that the problems surrounding gross leases and BIA levies would be solved by legislation.

At this juncture, CFIB is recommending that the Ontario government implement a small business threshold solution to the problem of the former business occupancy tax burden being shifted from large business to small business in property tax and legislate a permanent cap on the business property tax contribution to education funding. At present we've been told that it will be capped at $3.5 billion, but that's by announcement, not by legislation or anything more formal.

We urge the Ontario government to monitor and make public data for each municipality covering the transitional tax ratio and its position within the allowable range of fairness so that there is scrutiny on what's happening, and that the Ontario government use its capacity to set the range of fairness annually to achieve a specific target and timetable for narrowing the unfair business-residential gap, including the education portion, and finally to apply strict penalties to municipalities which violate the rules.

I'd like to also take you to page 11 of our brief and the pie chart which is included as a loose document and also appended to the brief. This has to do with the whole area of debt and deficit reduction and the fiscal approach the provincial government is taking.

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At present there are of course many challenges from many quarters coming on the fiscal plan the Ontario government is currently carrying out, particularly having to do with the appropriate mix of spending, tax relief and attention to the deficit and debt.

Our Focus on Ontario Survey which we conducted mid-year 1997 went to our members and explained some of the background: that the spending stringency had substantially reduced the deficit, that Ontario was ahead of target on its elimination, that the debt had surpassed $100 billion and was expected to go to $118 billion, and that personal income tax rates were in the process of being reduced by some 30%. We received 3,700 responses from independent businesses across Ontario and you see the results in the pie chart before you.

We asked the question, "Which one of the following actions should the Ontario government take to deal with the deficit and accumulated debt?" Over half of the respondents, almost 54%, supported continuing the current plan on spending cuts, tax reduction and deficit reduction. Almost one fifth, or 18.6% actually, would have the government be more aggressive with respect to tougher spending cuts to reduce the deficit more quickly while lowering taxes as promised. Another fifth, 22%, would support the government focusing on privatizing and contracting out, applying the proceeds or the savings to debt and deficit reduction.

As noted above, the stimulated effect of tax cuts is actually supported by smaller firms. A minuscule, only 0.8%, which is actually reasonably large, would have the government raise taxes or fees to permit increased spending and/or faster deficit reduction. Less than 1% of our members believe taxes should be increased, or alternatively that the PIT relief should be cancelled.

There is also some follow-up detail which probably time won't allow me to refer to, dealing with the various portfolios and spending and what our members would have the government do in each of those areas. I commend that to you.

I'd just like to turn now to the recommendations which are summarized on page 13 of the brief.

CFIB urges the government to continue finding ways to reduce the total tax burden, first by reducing its claim on small firms' hard-earned revenue, and second by using its leverage to convince other levels of government to do likewise.

Our members are pleased with the employer health tax relief to date and they're looking forward to the exemption threshold being raised to $400,000 on January 1, 1999. That's also true for the self-employed EHT.

The Workplace Safety and Insurance Board payroll taxes must now also continue on the downward track, even as the board's $8-billion unfunded liability is being reduced.

CFIB also urges the government to review its retail sales tax compensation for small retailers who bear the greatest costs of helping to collect the $10.6-billion sales tax revenue the government is collecting.

On the issue of fees and levies, we support what previous presenters said. We recommend a very detailed review of those be carried out. Excessive increases in certain obvious fees should be rolled back; for example, probate fees. There are a number of principles that we set out here in terms of the application of fees: that they must replace taxes, not be an addition to them; that they must reflect the cost of the actual service being provided and be allocated in an evenhanded manner. These principles, we feel, should also apply beyond the provincial government, for example to municipalities or agencies. Of course, there's an opportunity in the Municipal Act to do that.

We've already covered the property tax and PIT recommendations. On personal income tax, there is some discussion on dealing with the tax collection agreement. If there are any changes in the offing, CFIB recommends that the Ontario government conduct a comprehensive consultation on any proposals for change in that area.

We have several recommendations in the area of corporate income tax to deal with issues for small business, and I'll commend those to you.

Finally, in the area of deficit-debt reduction and government spending, we continue to recommend that the government's pre-election commitment to balance the provincial budget by fiscal year 2000-01 be reinforced with stringent balanced-budget legislation. I saw media reports that that seems to be an accepted one. The Ontario government should follow the example of other jurisdictions and move quickly to set out a tough but attainable plan for paying off the debt, with targets, timetables and penalties for missing them. We believe this should be done now, before many ideas come forward about how the surplus ought to be spent.

Finally, we recommend that the Ontario government adopt a policy whereby public sector employer pension contributions are brought into line with the rest of the economy, by amending legislation to introduce contributory caps equal to private sector norms.

I will conclude at this point, and Brien and I would be pleased to attempt to answer your questions.

The Chair: Thank you very much. We have approximately three and a half minutes per caucus, commencing with the NDP.

Mr Pouliot: Welcome back. Your members must be anxious, and should remain anxious perhaps for the next five or six months. Because of recent legislation — I am referring here to devolution. Some people will say "downloading," but it's a shifting of responsibilities from the province to the 800-plus municipalities in the province of Ontario.

With that, you have an exercise, assessment and reassessment of some 3.8 million units in the province. It's the largest endeavour of this nature ever undertaken, and the Ministry of Finance says to expect more than 600,000 appeals. This should take place around May, June and July.

Few, if any, of your members will get a tax break when we're talking about the education part of the levy. They're not impacted. They will pay the same amount of money for education. There will be some changes with the BOT, the business occupancy tax. Some, mainly large-square-footage operators, will pay less. It will create a vacuum.

The downloading is not revenue-neutral; it will cost the municipalities money — another vacuum. The residential homeowner will have a bit of a break. They'll get 50% less. So the municipal councils will have a choice: to hit the homeowners, the residential sector, with a levy to make up the difference — because the government is not making up the difference; it's going to cost them money — and/or the business community, especially the small, the commercial assessment levy. What is your reaction? What message do you have for the government? There's still time. They have a majority, and they can use their majority muscle before the budget and with the budget to implement the right legislation for your members.

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Ms Andrew: What you say about small businesses being confused and uncertain and fearful is absolutely true. We are hearing from many of our businesses. They simply don't understand all the pieces of this puzzle, including, as you mentioned, the shift in responsibilities and funding between municipalities and the provincial government and the fact that it may end up with more municipal cost.

All of the pieces of the puzzle, including reallocation of the business occupancy tax; the education portion; the reassessment, and people are just receiving their reassessment notices now for their tax but have no idea what that means in final terms; there are issues around lease terms. The uncertainty in and of itself is very disrupting, and small firms know that they were to date and have been for some years ill treated by the property tax system. They wonder if there's a lot of sleight-of-hand going on here and if the sleight-of-hand is going to mean more picking of their pockets.

Our recommendation for the provincial government is right at the top of page 7 of the brief. We want the municipal portion to be seriously constrained, and as far as we can tell from looking at this, the ranges of fairness are

somewhat tighter — reasonably tight, reasonably stringent, so we hope that is the beginning of a plan to eventually have a timetable for narrowing that business-residential gap. The range of fairness is to include the business education portion, so that's important. Basically, the time has come now for municipalities to make some of the tough decisions, and that is to make the residents pay for the services they're enjoying.

Mr Arnott: Ms Andrew, thank you very much for your presentation today. It's filled with eminently common-sense solutions to what the government sees as continuing obstacles to job creation, so we really appreciate your advice.

You've suggested that we implement a small business threshold solution to the problem of the business occupancy tax changes. Like you, I've had complaints from small business people in Wellington county about this issue. How would you see that working? Are there practical problems to its implementation that might exist?

Ms Andrew: There probably are practical problems, but we would like to work them out because there is this issue of the vast gap between business property tax and residential property tax. For new businesses starting out, either in their garage or their basement, the notion of moving from that very small state to a main-street business premises is of course impacted by the tax. We would argue that below a threshold — and we would need to see the data and work out precisely at what level that threshold ought to be — the business properties should be taxed more like they're a residential property, and thus the decision to move from the basement and to grow your business and so forth would be a more neutral one.

At the very least, we believe, as we recommended three years ago going into this, that there should be no more taxes on a business property because they're already paying too much. A threshold would help address that issue.

Mr Arnott: At what level should the threshold be placed? Any ideas?

Ms Andrew: To the government's panel on education we recommended at the level of $400,000. We don't know if that's practical or not; we'd need to see the data. But if you look at some of the tax shifts that would have been involved in terms of just the education, Prince Edward county, for instance, would have seen for commercial properties a 224% increase in taxes and industrial properties up 54%. A threshold would begin to deal with that kind of issue. That also goes for Metro businesses, which are very overtaxed and are having a difficult time. This isn't a new problem for Metro businesses; some have been fleeing Metro, and it's unfortunate. But the answer here is not to share the misery, it's to —

Mr Arnott: Okay. Thank you very much.

Mr Phillips: I appreciate the presentation. Your members indicated that the number one issue for them is property tax and local business tax. Now at least who is responsible is clearer. I think we have to be very clear on this. The province now will set the rates for the majority of property taxes on businesses. It's no longer the school boards and municipalities; the province will now set roughly 60% of the local property taxes. They've actually announced what that rate will be for all the local businesses for the next three years.

Ms Andrew: Which is, "hold the line."

Mr Phillips: Yes. I'll talk about that in a minute. It's not freezing the amount of money they raise, it's freezing the rate, and as assessment goes up the money grows. They've never said they'll freeze the amount of money; they just said, "We'll set a rate and then as assessment grows we're going to have" — because we're going to reassess every year.

Unfortunately, you can't debate with the government because they don't vote on this thing. They'll never present the tax for a vote. It's not like a municipal government, where at least the business could go and say, "I don't like that." It was announced two weeks ago what it's going to be and that's it. They've done that, and in our opinion it's totally undemocratic. They've set 60% of the tax on all the businesses in Ontario without even a debate. Nobody here ever debated it. Well, Mike Harris did, but it was all done behind closed doors.

There's a problem now, I think, which is that if you're a business in Orillia, you're going to be paying three times the rate a business down the street in Huntsville is paying, set by the province now. If you're a business in Brockville — and Brockville has had some challenges; I think the Black and Decker plant announced it's going to close; the psychiatric hospital is closing — you're going to be paying three times the rate of a business over in Parry Sound, identical businesses. That's on 60% of the taxes.

You've suggested that share-the-misery isn't the solution, but for the next three years this is going to be what it is. You've suggested a lower tax on smaller businesses, but that's probably not going to address these inequities. I gather what you're saying is that your members are prepared to live with those inequities so you don't get into the sharing-the-misery issue. Your recommendation to us, I gather, is to try and take a look at some of these things, but that's just the way it's going to have to be over the next three years.

Ms Andrew: No. Our recommendation is not to live with it, certainly in Metro.

Mr Phillips: I didn't mention Metro.

Ms Andrew: Well, wherever. We conducted a nationwide study and found these terrible inequities between business and residential property taxpayers. A big part of the solution is to begin to charge residents, who are the voters, certainly on the municipal portion, to begin to have them pay the freight for the services they're enjoying.

On the education piece — and you're certainly right; this is putting the worst face on it — is a new property tax by the province on businesses. This is the reason we are calling for a permanent cap on that contribution to education funding. Education funding is $5.4 billion from the province presently. We're putting a lot of money on education. We're spending the second-highest amount per capita on education in the world, certainly across the provinces and most OECD countries.

Right now we have a situation where we're allocating a lot of that education funding into the teachers' pension fund over an agreement dealing with an actuarial deficit that has now pretty well disappeared, but we are still committed to 22 years, apparently, of paying off an $8.4-billion deficit that is now not there any more. That costs us $460 million a year. It's kind of interesting that $460 million is pretty close to the half-a-billion dollars that it would take to deal with some of the tax shifts if the business education portion was allocated on a uniform basis and to have a threshold.

There are some huge issues here. Businesses in Metro are certainly way overtaxed. Businesses right across the province are overtaxed. The education portion very definitely has to be part of the range of fairness so that we can begin to narrow that business-residential gap.

The Chair: Thank you very much. Our time has elapsed. I thank you very much for your time and your presentation, Ms Andrew.

Mr Baird: I want to follow up on the comments and the issue raised by my colleague from Scarborough earlier with respect to Ontario Hydro. I want to propose a motion to deal with that request now and briefly explain why.

I move that the committee ask the Chair to write the president of Ontario Hydro and request further information and background material relating to yesterday's announcement of the board's decision to write down negative equity of $6.6 billion on its 1997 statement and; that the committee give the president of Ontario Hydro the opportunity to appear before the committee before the end of the public hearings on pre-budget consultations, ending tomorrow, Thursday, February 19, 1998.

Do you want me to make some brief introductory comments?

The Chair: You want me to write and invite the chairman of Hydro to come here some time before 4:30 tomorrow afternoon.

Mr Baird: That's when the hearings are ending, but more important, to get more information for the committee.

I want to just say three things on that. We had a select committee on this issue, which took two or three months and spent more than $400,000 investigating the issue. A committee permanently given the issue of looking into this important issue took three or four months. I know my colleague Mr Kwinter was the Vice-Chair of that committee. Towards this process, each committee had —

The Chair: Just let me interrupt for one moment. Is it the committee's wish to debate this issue at this point in time?

Mr Phillips: I don't have any trouble with the recommendation. I don't think we need to debate it.

The Chair: Are we in agreement?

Mr Baird: It's agreed.

The Chair: Very well. I have no difficulty writing the letter. It will be prepared and faxed today. You've heard the motion. Is everyone in favour? Unanimous. The letter will go out.

We'll recess till 1:30.

The committee recessed from 1203 to 1330.

CANADIAN ADVANCED TECHNOLOGY ASSOCIATION

The Chair: Our first presentation this afternoon is from the Canadian Advanced Technology Association, Ms George, the executive director. Thank you very much for coming. Welcome.

Mrs Shirley-Ann George: Thank you, Mr Chair. Good afternoon. On behalf of the 450 direct and 2,200 affiliate members of the Canadian Advanced Technology Association, CATA, we'd like to thank you for your willingness to listen to the interests of the high-tech community in Ontario. For those of you who are unfamiliar with our organization, our mission is to increase the efficiency and competitive position of our members; encourage innovation and leadership at home and abroad; and to foster a business environment conducive to strategic alliances, partnerships and exports — the lifeblood of the high-tech community. Our members are heavy investors in R&D and generally derive over 70% of their revenues from exports. Some 55% of our members are in Ontario and include such well-known companies as CAE, Cognos, Cybermation, Gennum, IBM, JetForm, Newbridge, Nortel, OpenText and Systemhouse.

These companies base their world-mandate operations in Canada, while accessing global financing in order to win in the global marketplace. To survive in these conditions, each company must fine-tune every piece of their business. For most of our members, the global marketplace has been tough but successful. For some, as I'm sure you've read in the press, it's been absolutely brutal. Overall, Ontario's companies compete with transnational giants and domestic favourites and are winners on a regular basis. This has led to significant growth.

Stats Canada shows 1994 to 1995 employment growth for this sector to be an amazing 13%. Last year the CATA members' survey showed 175 companies expecting to increase their employment by 10,000 individuals over the next 12 months.

We have watched with interest as this government has attempted to make more changes in a short two-year time frame than many governments would attempt in two to three terms. It is heartening to see that your government understands that Ontario too must compete with countries such as the United States, Ireland, India and Taiwan, and that you too must fine-tune every part of the business of Ontario. Change was sorely needed. Now we watch to see if you will be able to put all the pieces back together again.

CATA's members have been, overall, pleased with many of your initiatives designed to make our businesses more competitive. The most impressive is your move to declare that Ontario is now open for business and your campaign to market Ontario internationally. This new government attitude has brought renewed confidence in maintaining and growing our operations in Ontario. We've also seen a move to the much-needed decrease in personal taxation, which is a real inhibitor to our growth, and also some education initiatives, such as the student

opportunity scholarship fund, that will provide downstream competitive advantages for our members.

It should not be surprising that some of your initiatives leave us scratching our heads, and we wait with interest to get further details. One example is, how can you significantly increase the cost of tuition while reducing the amount of student loans? Somewhere or another there's a gap there.

Also, you should note that not all is rosy and that our members have some interesting challenges with your government officials at this time. There appears to be a natural follow-on from budget cutting to aggressive auditors, and that's not just found in the province of Ontario. Both the Worker's Compensation Board — now the Workplace Safety and Insurance Board — and your provincial sales tax auditors appear to be going out of their way to move our members, especially software companies, from exempt or low-paying categories to higher-paying categories. In WCB's case, these changes are retroactive up to four years. This is not an incidental aggravation. In one member's case, the bill is over half a million dollars.

We accept that you will need to make changes to your business environment from time to time, but retroactivity tells us that our business environment is unpredictable into the future and into the past. This translates into instability, which I do not believe is the intent of this government. You can support business and job growth in Ontario by stating in the upcoming budget that your government will ensure changes are not made on a retroactive basis unless the government can show malicious intent by the taxpayer. Your leadership in this matter is sorely needed.

Unfortunately, the largest challenge for our members is still the shortage of qualified people in the highly paid professional information technology positions. Using 1995 employment growth rates, we can expect as many as 56,000 new positions to be created for professionals with computing science, computing engineering and electrical engineering degrees in Ontario over the next five years. Unfortunately, again using 1995 graduation rates, we see only 14,000 additional Ontarians with these new skills. This leaves 42,000 direct job opportunities that will go unfilled — 42,000 highly paid jobs. The result leads to innovations stymied, products not developed, market share uncaptured, revenues unrealized, downstream jobs not created, profits forfeited and, perhaps of equal interest for you, taxes not contributed. Finally, using the standard two to three multiplier, the total number of jobs in jeopardy is 120,000 to 160,000. This is a serious problem for our members and it's a serious problem for this province.

CATA is helping our members through such initiatives as international recruiting with headhunting missions, through our HR Web site designed to help companies and individuals find each other called Technoskill. We are also a partner with an organization called On-Site that helps the unemployed find employment positions in high-tech companies, and we do compensation surveys to help our members ensure that they are in a competitive position. Unfortunately, these efforts are not nearly enough and they don't fill our natural desire to fill these jobs, whenever possible, with residents of Ontario.

On the competitive front, United States universities do not have the funding challenges that Ontario universities have. In fact, even public institutions have a grant rate of over twice that of Ontario. Some of their regions are getting very serious about addressing this problem. The state of Virginia has stated that they are looking to triple not only their university enrolment but also their two-year college programs.

There are many ways for the government to address these problems. Unfortunately, it does not appear that there is enough room in the upcoming budget for the additional approximately $500 million that would be needed to fund Ontario universities at the average Canadian grant rate. And this government surely doesn't need to open another Pandora's box by trying to restructure higher education at this time.

Nortel has a proposal in to the government asking to increase the weighting of university IT students from two to four basic income units. This proposal has a lot of appeal, largely because of its simplicity, but it comes at a greater than $70-million pricetag and would increase as enrolments went up. This is perhaps the best option if you have sufficient funds; $70 million, with your aggressive goals to not have a deficit, seems like a bit of a stretch as well.

CATA's proposal is more modest and has the government and industry working together to cover the costs of the incremental students added to these programs. The cold, hard reality is that if we don't find a solution, these 42,000 and many additional jobs will move to other jurisdictions as the high-tech community loses faith in the ability of Ontario to sustain our growth at home.

It is for this reason that we come to you today with a proposal called Double the Pipeline. The intention is to provide the additional university seats and resulting jobs for 2,300 of Ontario's youth per year by doubling the enrolment in computing science, computing engineering and electrical engineering post-secondary educational and professional institutions.

There are qualified students being turned away today. In 1996 over 7,000 more students applied for these programs than could get into the estimated 2,700 seats. We could have a pilot under way as early as September of this year if the approval was granted quickly. This proposal leverages a $7.5-million government investment in 1998 and $56 million over four years with a greater than $230-million investment by industry. Even with this proposal, it will be four long years before we have a significant increase in the talent pool. For many of our members, that's four or five product life cycles. The problem only gets bigger the longer we wait, and software development in places like India only becomes much, much more attractive. We are willing to start immediately and work with you and the post-secondary education institutions to ensure Ontario's place in the 21st century. We respectfully submit that the time to act is now.

Thank you for your time. I'll be happy to answer any of your questions.

The Chair: Thank you very much. We have approximately six minutes per caucus, and we'll start with the government caucus.

1340

Mr Wettlaufer: Thank you very much for your presentation. I'm very concerned about the high-tech availability for jobs that are going wanting. I've been doing a lot of reading on that just recently. I noticed with interest on the weekend Nortel's announcement. I have been using the figure of 30,000 jobs that I read somewhere recently, and now you come forward with a new number of 56,000. It is scary indeed that we do not have the people to fill those jobs. Is there any way that we could put this on fast-forward that you know of, ie, people who have graduated from university and are in low-paying, low-skilled jobs who could be retrained quickly?

Mrs George: There's a very natural desire to take the unemployment and underemployment problem and the employment problem and try and fit them together. There is a lot of work already happening in that, but it is only able to fill a certain part of the pipeline. You can take somebody with a BA in arts who can't get a job and teach them to be a Web master in six to nine months; there's nothing you can do to fast-track the high-level positions that a Nortel or Newbridge needs for product developers. You truly do need the education system to work its way through to get the professional skills that are needed. There are lots of programs that are turning arts degrees into LAN managers, and it's very much worth doing, but it doesn't address the high end of the problem.

Mr Wettlaufer: What about the math or science graduate whose areas of specialization are perhaps more closely aligned with the high-tech industry?

Mrs George: There is an initiative under way that you should be aware of that is geared very closely to what you're suggesting. It's called O-Vitesse. It's something that NRC and Mitel have worked on. You take somebody like a civil engineer or a mechanical engineer who's having difficulty getting a job, you give them 12 months' worth of training and you can move them into some level of software development. It's a very good program, highly recognized. Unfortunately, all it needs is a little bit of seed funding at the administration level so that it could be taken across Canada or at least across Ontario. It's by far the best initiative of the kind of fast-tracking you're talking about that I've seen anywhere in Canada.

Mr Wettlaufer: What kind of seed funding?

Mrs George: You just need somebody who will literally make it happen. My guess is that you could do it for possibly as little as $100,000. This one is just a natural fit. It doesn't require millions of dollars. Again it doesn't address the high end of the problem, but you could cycle several hundred people through that kind of initiative over a period of a couple of years.

Mr Baird: You mentioned the report from Nortel. I just got a copy this afternoon. It certainly is worth a read and worth some reflection. The fact that these jobs are going unfilled is not just a tragedy for those folks who don't have those jobs, but the spinoffs in these areas are two to one, three to one, even four to one in some cases, by one federal government estimate, and they do open up other opportunities for others in the economy with perhaps not that specific level of skills. That's got to be a priority for us all.

I want to approach it from another perspective on the training side, since my colleague already raised that issue. It's with respect to the business environment in Ontario. One of the things I'm trying to get a handle on is the tax competitiveness. For every engineer we import from the United States we lose eight, we learned yesterday from ITAC; and one of the biggest factors, they said, was the dollar, but another big factor is the tax competitiveness. How big a disincentive do you think our high taxes are, and do you think the personal income tax reduction has had some effect on retaining those skilled employees here in Ontario?

Mrs George: It definitely has had some effect. Unfortunately, the gap is very, very big. To give you an example, compare a senior software engineer in Ottawa versus a senior software engineer in Austin, Texas, where they have no state tax. Interestingly enough, they'll make approximately the same amount of money, within $5,000, but there will be an $11,000 difference in their take-home pay. That's an approximately $20,000 raise in a day, just by moving to Austin, Texas. That's a huge gap, and not one that we can expect the government to be able to fill quickly. I encourage you to move in that direction as much as possible.

These individuals are extremely mobile. If you've got an engineering degree, you can literally move into the United States with 20 minutes of processing at the border. That's all it takes, and there are tons and tons of jobs down there. American companies are becoming extremely aggressive about recruiting in Canada. They have discovered Canada only over the last 18 months and it is the land of plenty. Just a standard wage in the United States is enough to attract many Canadians down.

Mr Baird: Not that we'd ever get or want our taxes to fall to that level in the short term, and obviously we have health care and other programs which they don't have there, but that still doesn't account for the $20,000.

The Chair: I have to interrupt there and move on. Coming from Ottawa, as Mr Baird and you do, you understand that it's the same rate of percentage increase that a welfare person makes when they move from Quebec to Ontario, come across the border.

Mr Kwinter: I'm really struck by the information about what is happening with this sector in our economy. We've had various groups appear before us. Just before we broke for lunch, we had the chemical industry complaining about the end of the pipeline for their feedstocks, high labour costs, labour legislation. Your industry really is knowledge based, so the individual is the key.

Mrs George: That's right. Our capital assets mainly walk out the door every night.

Mr Kwinter: That is exactly the point I am trying to get to. Just so there's no confusion, we're not concerned about people who build the computing equipment, it's the people who do the software, and that is really the key to what you're talking about as to our competitiveness.

Mrs George: It's not the manufacturing; it's those who build the intellectual property for the company.

Mr Kwinter: As you say, every day they walk out and all your capital goes out with them. It's totally mobile, it can go wherever it wants to go and it's not a big deal.

Mrs George: To give you a sense of perspective, the very, very best software engineers in India cost $18,000 a year. It's a very big competitive threat. It's very easy to move significant portions of your software development offshore.

Mr Kwinter: It looks like it's almost hopeless. Your figures say we're going to graduate 14,000 and the need is 56,000, and even if you double it to get to 28,000 it's still only half of what you're looking for, and this gets compounded. I know you're saying you've doubled the pipeline. That's going to be better than what it is now, but is it going to address the problem?

Mrs George: We know it's not going to be enough, but we're looking for some interim measure that the government of Ontario can help us with to keep our confidence in the province. Two years down the road, hopefully there might be enough money in the system that we can attempt to double again. What we need to do is start making some significant gains. There are some universities that are trying to address the problem, but with their funding constraints they can only increase their enrolment by 15% or 20%. That seems like a very large number, but it's nothing in comparison to the need. It's what we can do to work together to build confidence in the system to have a big win where everybody is a winner, and then we can try and move to the next step after that. That's what our proposal is about.

Mr Kwinter: The key professions you're looking at are computer science, computer engineering and electrical engineering. In order to attract students into those streams, surely you have to start at a very early age to get them on track so they are in fact looking to those kinds of areas.

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Mrs George: That is something that needs to be done as well, but when we did go to the Ontario application centre we were very encouraged and at the same time discouraged to see that there are literally thousands more students applying for the current number of positions than are available. So it would be quite easy to make a very significant increase in the enrolment of these programs without having to go into the high schools to try and widen that pipeline as well. That's a natural next step, but we can get started today without doing that.

Mr Kwinter: Are all of the programs available in Ontario universities filled?

Mrs George: Every one of them is filled; every one of them is turning away people. You need a 96% average to get into computer science at Waterloo; you need a 93% average to get into electrical engineering at U of T. I'd suggest that probably not too many people in this room, if that was the requirement when we went to school, would have made it.

Mr Baird: No comment.

Mrs George: It's just staggering. The cutoff rates are just unbelievable.

Mr Kwinter: It begs the question, then, why aren't they expanding the programs? I guess it's because of fiscal constraints.

Mrs George: That's right. Universities will lose money for every additional computing science student they take. Not a very good business proposition.

Mr Kwinter: That also addresses another problem. The universities, of course, have had some fiscal problems. They are under incredible pressure, so they are looking at delivering programs that are going to give them the highest profitability so they can function. As you say, if there is a program that actually costs them money, there's a disincentive for them to encourage students to go into that.

Mrs George: That's what our initiative tries to do, to ensure that it doesn't cost them money, that they can actually afford to increase the programs. It's very specifically targeted. We understand the reluctance of the government to just pour more money into the top of the funnel and see how it sorts its way out. This way you can get your money right to the heart of the problem.

Mr Kwinter: What is your opinion of the prospects? Do you see any light at the end of the tunnel on this? Do you see any indication that they're somewhat prepared to address this problem?

Mrs George: We'll see come budget time, but we are very hopeful that the government understands this truly is a problem that needs to be addressed, and one that cannot be put aside for another two years.

The Chair: We'll move to the New Democratic caucus.

Mr Pouliot: So the future is today. What an irony. We seem to have some difficulties breaching the 8.6% to 9% range downward, which means positive, in terms of Ontario unemployment. It's a perennial with us; it drags, almost regardless of our economic situation. Yet with your presentation you're telling us that jobs are going begging.

Mrs George: They're not only going begging, they're also leaving every day.

Mr Pouliot: They're also leaving. There is, if not an exodus, certainly an imbalance. People with the qualifications are going elsewhere.

In answering Mr Kwinter's question, you mentioned that it's not so much the people who build the computers, but it's the people who go beyond. You're looking for niche markets, if you wish, or you wish to at least maintain your position.

You've traced a program for the government. You say: "At least double or even go beyond, if you're to respond to the marketplace, and put more seats at Waterloo, among others, so people have access, so the curve will not be adjusted upward by virtue of so few seats." We know the way the exercise runs.

What about the shared responsibility of the private sector? You have as much to gain by way of maintaining, by way of increasing your niche markets and beyond. Aside from the recycling, what is it that you would like to enter into in a partnership with any government vis-à-vis education?

Mrs George: Our members are very heavy investors in the education process today, and what we're looking to do is expand that. This proposal has $230 million of industry contribution to a $56-million government contribution, so it's going to cost us more than it's going to cost you. Every one of our members that I can think of has some arrangement, some partnership with Ontario universities today. So we accept that we do have a joint responsibility.

Mr Pouliot: I for one as a hobby just follow the fate of the — I better find you under NASDAQ or other equity markets. I looked at the fate of Newbridge, and it was pretty difficult with NASDAQ, because past performances don't always grow back, but you have as your price-earning ratio — and you pay so little in dividends, but that's for another time.

What we have is a government that insists on meeting the needs of the marketplace, but the reality paints an entirely different picture. What you've read in the media, in the papers, is true. They're cutting money; they're taking money out of education. So good, logical people like yourself are saying to the government on the eve of the tabling of a budget: "You need to be better focused. You need to fill the need of the marketplace through education. This is our salvation, all of us. We only get better; there's no downside." I share with you, and I hope they will listen, that you need an infusion of money for the fine point, for high-tech, to meet the needs of the marketplace. Not very complex, is it? You're not asking them to redefine the atom; this is not Greek mythology; this is not nuclear physics in five languages. It's common sense. I understand what you said very much.

Mrs George: We are very fortunate in that to solve this problem we don't need to find a cure for AIDS. We already know how to educate literally world-class, if not the best in the world, computer programmers in this province. We excel at it; we excel at the growth in the marketplace with our telecom equipment and software companies. All we have to do is get our act together and do more of what we already know.

The Chair: Thank you for your time and your presentation. We appreciate it.

CITIZENS FOR PUBLIC JUSTICE

The Chair: The next presentation is the Citizens for Public Justice. Gentlemen, welcome and thank you for your attendance.

Mr Gerald Vandezande: Thank you for the opportunity to appear here. With me is Rick Tobias, the executive director of the Yonge Street Mission, who also appeared with me last year. He will introduce us to some of the realities in terms of the needs of youth and other families living on the streets of Toronto, and then I will follow up with some policy recommendations.

Mr Rick Tobias: Good afternoon. As mentioned, my name is Rick Tobias. For the past 15 years I have worked with the Yonge Street Mission in the core of the city of Toronto. I am currently the mission's executive director.

I want to begin this afternoon by simply expressing my sincere thanks to the committee for providing the opportunity for us to make this presentation to you. Needless to say, I wouldn't be here today if I didn't have some deep concerns about the impact of budgeting decisions on the community we serve. Just for your knowledge, the Yonge Street Mission serves the southeast side of the city of Toronto, arguably the piece of Canada that has the highest population density in the nation. The highest concentration of low-income people in the nation live a walk away from our centres.

For a hundred years, the Yonge Street Mission has had one mandate, and that's to serve the poor and the needy in the core of the city of Toronto. We currently invest several million dollars a year worth of goods and services into the community. The vast majority of the support that we provide is without government assistance.

My reason for appearing before you today is to discuss the recent trends in terms of funding and services and their impact on the poor in our community, their impact on other agencies we work with and on our supporters.

1400

The impact in terms of cuts in spending for programs serving the poor and continued reduction of welfare benefits continues to take a high toll in our community. People's living conditions continue to deteriorate, and the families we serve continue to be forced into unreasonable choices: Do I feed the children or buy medicine? Do I pay the rent or do I purchase needed clothing? Our sick and infirm are getting less health care and now find themselves panning, doing drugs and prostitution. All those things are increasing in our community, as opposed to decreasing in our community.

I'm especially concerned about the impact of these sorts of choices in living conditions on our children. I don't have to tell you that in spite of a national commitment to reduce child poverty by the year 2000, we have seen a dramatic increase in poverty rates among children. Not so obvious is the increase in the depth of poverty that those children face. If we do not commit ourselves to intervene in the lives of those families and their children, we will pay the financial costs of those decisions for decades to come, not unlike a failure to make the sort of decisions that the last presenter alluded to.

I've recently begun to talk to a number of middle-class people and had them experiment with living off of the province's current welfare budget. I have, to date, been unable to find a single person who could figure out how to make the income that they would have on welfare stretch over a month. In fact, in the past month I met with a group of seminary students and asked them to try to figure out how they would live off a month's welfare income. By the end of it, these seminary students decided they would have

to steal, prostitute themselves or cheat the system in order to get from the beginning of the month to the end of the month on that amount of money. Christopher Sarlo, who publishes the most conservative poverty-line or low-income cutoff in Canada, has currently set his low-income cutoffs at higher levels than the current welfare allowances in Toronto.

An indication of the impact of the cuts on our community is an increased demand on mission services. From the moment the cuts to family benefits took effect until today, we have had to deal with a 40% increase in demand on services for our food bank, while absorbing a significant reduction in the amount of food available to the mission through Daily Bread. Weekly allotments from Daily Bread now range at 50% to 70% of what they were two years ago. That means also that the quality of food that we now provide has literally moved to a deplorable state.

The number of street-involved youth making use of our drop-in centre on Yonge Street has increased by almost 50%. It used to be that the vast majority of the youth we served were products of highly dysfunctional or abusive families. Those youth are increasingly being joined by youth whose families' financial situation forced them out of the home. After decades of not providing any substantive amount of food for homeless youth, we now find ourselves compelled to feed 120 to 150 homeless youth in the city of Toronto each day.

As hopelessness increases, so do anger and violence. The Yonge Street Mission's staff are now required to deliver far more service in a far more volatile environment. We do not have a corresponding increase in financial or human resources to meet that need.

Last year I told you that I feared this situation would take its toll on our caregivers. This year I can tell you it has. Staff turnover has increased and, by extension, continuity of care has decreased. This creates, for me, a very alarming downward spiral. Our single most important tool as we work to move people away from dependency to self-sufficiency is the quality of staff relationships with our clients. As those staff relationships deteriorate, the effectiveness of everything else we do rapidly deteriorates and we become far more maintenance-oriented than solution-oriented.

Our historic support community is experiencing donor fatigue and confusion about current realities. They hear from us that poverty is increasing and that our people are hurting more than ever, and they hear from government sources that things are dramatically improving. Business, quite honestly, is investing more in us than ever before, but their interest is primarily in new development and new projects. As a result, many of the private charities and missions in the city are now eating up their reserve funds and going into debt at alarming rates. As a mission, we have been able to hold our own so far, but we have not been able to garner sufficient resources to keep pace with the incredible increase in demand that has been put on our services.

I am convinced that it's time for us to loosen the restraints that we have imposed on the poor, to give back to them some of what we have taken away from them. Otherwise, we face the reality of the potential collapse of a lot of support services. We face the reality of growing hunger. We face the reality of children growing up in this city who, quite bluntly, will be societally dependent until the day they die because we have not taken care of them in their youth.

I want to thank you for the opportunity to share with you, and I would be glad to answer questions after.

Mr Vandezande: Tying in with the remarks Mr Tobias has just made, which is really an update of the report that he submitted to the committee last year, I want to connect with the policy aspect.

While listening to Finance Minister Ernie Eves in this room when he appeared before this committee on February 10, it really struck me that Mr Eves made no mention of the plight of the jobless, the homeless and the poor. The minister spoke repeatedly about deficit and debt reduction, but he did not say a single word about the urgent need for poverty reduction. Mr Eves boasted about the series of income tax reductions, which mostly benefit high-income people.

I should inject here that the government has had to borrow every dollar of the income tax cuts, thus forcing the government to go deeper and deeper into debt each year, for a cumulative total of the income tax cuts of $9 billion by the year 2000. That's the amount of money this government has had to borrow in order to finance the tax cuts, which mostly benefit the wealthy.

I want to make that point because Mr Eves boasted about the series of income tax reductions, which mostly benefit high-income people, but he didn't say a word about the pressing problem of homelessness and many people's growing dependence on food banks, as we heard this morning and this afternoon. One could get the impression that there is no hunger, no homelessness, no joblessness, and no poverty in Ontario, but we all know there are huge problems. There are emergencies that must be tackled immediately by our government, in close cooperation with businesses, trade unions, faith communities, community agencies and social organizations.

The finance minister concluded his testimony to this committee by saying, "In particular, I look forward to advice from the committee which will contribute to making Ontario the best place in North America in which to live, work and raise a family."

This objective requires both the eventual elimination of the deficit and the debt and the elimination of joblessness and poverty. These major problems must be tackled together in an integrated way. I draw your attention to the excellent statement made in both the Globe and the Star in full-page ads by David Crombie when he argued for the need for integrated policies. The government's budget premises and policy priorities must be established in the context of our collective obligation to meet the essential needs of vulnerable neighbours. This objective includes, as the minister told the committee, that "the government must balance prudent economic and fiscal management

with the need to preserve and enhance priority services if the burden of debt is to be reduced."

However, the process by which the Ontario government is reducing the deficit has caused serious and lasting damage to our province and its people. The government's one-sided emphasis on the fiscal deficit has caused new, dangerous deficits that directly affect our community wellbeing; namely, our economic, educational, environmental, and social wellbeing, including health. The government has failed to act in a humane, integrated way on the basis of the bottom-line principles of human dignity, mutual responsibility, economic equity, social justice, environmental integrity, and fiscal fairness, as outlined in appendix A of our submission.

The commendable goal of deficit reduction has been used to justify arbitrary methods and bad policies. One of the worst of these was the unilateral reductions in Ontario's social assistance rates and community services. Then there was the abolition, with Ontario's consent, of the Canada assistance plan, with its historic commitment to people in need and national standards, and its replacement with a much weaker Canada health and social transfer and drastically reduced transfer payments. These cruel actions by Ontario and Ottawa have undermined the established government practice of promoting public justice for all and protecting the common good of all.

1410

CPJ shares the conviction that Canadians look to their government to be more than a keeper of good books. Canadians want their government to safeguard a caring society. This task clearly includes ensuring that needy Ontarians, especially children and families in poverty, receive adequate assistance. The discussion we must have is a debate about principles and values, about core commitments and policy priorities that are based on human dignity and equal justice for all people. It is about affirming life, building community and practising solidarity.

We have repeatedly advocated that our federal and provincial governments, as well as our non-government organizations, including the big profiteering banks, must jointly apply the stewardship ethic consistently. This ethic requires that we do not balance our fiscal books today by ignoring problems whose financial costs must be paid in the future. Just as we may not allow a fiscal deficit to be passed on to future generations, we may also not allow economic, educational, environmental, health or social deficits to be passed on to our children and grandchildren.

Chronic unemployment, rising tuition fees, spreading pollution, inadequate health care, increasing poverty among Ontario's children and their parents, the worsening plight of our first nations, as well as the horrifying hunger abroad, are grim reminders that economic inequities and social injustices are the costly consequences of the widespread neglect of humane core values, and this government has some catching up to do as well. These gross distortions in our economic, environmental and social relations demand immediate action. Therefore, we recommend that the Ontario government, in keeping with the request of the finance minister, adopt the elimination of poverty as its provincial policy priority, so that we begin to build on the commitment that must be made so that families in Ontario will be able to build a meaningful future for themselves.

We recommend the following steps, the first one perhaps being the most controversial but the easiest to implement:

(1) Redirect the promised cuts in the Ontario income tax rates to help finance the restoration of social assistance rates, community support services and other social programs that are essential to help eliminate poverty.

(2) Eliminate immediately the income tax now payable by all whose income is below the poverty line and press Ottawa to do likewise.

(3) Press Ottawa to increase substantially the national child benefit so that all of Canada's children and families living in poverty will benefit equally, and of course when the government does that, and there is every indication it will, that Ontario not then use the increased national child benefit to give more tax cuts to high-income people.

(4) Press Ottawa to increase substantially the refundable GST credit payable to all whose income is below the poverty line.

(5) Press Ottawa also to increase substantially the cash floor of the Canada health and social transfer and insist that the CHST include shared substantial standards and effective enforcement mechanisms that apply to all health, income assistance and social services programs.

I discussed these matters with Dianne Cunningham the other day and urged that during the current secret negotiations behind closed doors regarding Canada's future social union, the doors be swung wide open, so that the people of Canada may know what's actually taking place and that Ontario take the lead in establishing appropriate standards.

Furthermore, we recommend that the Ontario government establish an arm's-length, broad-based advisory council representing the full range of views on Ontario's budget premises and policy priorities. Its purpose would be to forge an effective, multisectoral consensus on what the government's core guidelines and budget proposals should be and how they should shape our community building together.

The elimination of poverty must transcend partisan politics. The common good and concern for the wellbeing of tens of thousands of Ontario families — the families about which Mr Eves expressed concern last week — in dire need require that politicians of all parties work together to tackle the pressing problem of poverty.

We urge you personally and the committee as a whole to challenge your colleagues from all parties of the Legislature to make the elimination of poverty a new provincial policy priority. Please help to give principled, visionary leadership in seeking a substantial budget commitment which will make a decisive difference for the thousands of children, families and individuals now forced to live in poverty. Most Ontarians will be deeply grateful.

The Chair: We have approximately four minutes per caucus for questions, and we will commence with the Liberal caucus.

Mr Tony Ruprecht (Parkdale): I have so many questions for Mr Vandezande, but I'll just get to one of them to Mr Tobias, who was speaking about the potential collapse of our support services.

Some people, Mr Tobias, will accuse you of being alarmist and of being a scaremonger, but I'll tell you, you haven't gone far enough. I hope you will comment on this. I represent the area, as you know, which is the southern part of Parkdale. There are over 2,700 people who are ex-psychiatric patients and others crammed in an area that is roughly two kilometres by one kilometre wide and long. The support services we are experiencing in that neighbourhood are there, but they're certainly not efficient and they're certainly not sufficient. Those two items go hand in hand.

I'm just wondering. If they are now going to close another — the minister of course is talking about this —the exact number of beds in the psychiatric institutions is not yet out, but I think she is talking about a hefty number of psychiatric beds being closed. I can just see that the movement from these psychiatric institutions into the community is going to be done again, for the second time, massively, without sufficient support services. I'd like you to comment, if possible, on how you see that load coming off the psychiatric institutions into the community and not having sufficient support services there. What do you predict is going to happen?

Mr Tobias: I don't want to pretend to be a prophet, but if you stand out in our community and watch the increased numbers of people who are homeless, the increased numbers of people who are making their way to services, it won't take any kind of rocket scientist to understand that those services can't long sustain.

The other thing that's very evident is that as I go through the city, I'm now seeing people spill over into non-traditional communities. When I go up into north Toronto, I'm now encountering people I didn't encounter before. They're going up there because they are in hope there might yet be some untapped service up there, because they're failing to access services downtown because services downtown are all extended to virtually the breaking point.

I have tried to be very careful in my presentation not to talk about other agencies, lest anybody accuse me of misrepresenting anything. What I can tell you is that as an organization downtown, virtually every service we now deliver is extended to the breaking point.

Mr Ruprecht: But there are some areas that are worse off than others. Would you agree with that?

Mr Tobias: Yes, and Parkdale, south Riverdale, Cabbagetown and Regent Park certainly are major areas of concern in the city of Toronto.

Mr Vandezande: It's precisely because of the concern that you express, Mr Ruprecht, that we make recommendation 1, that the tax cuts, which during the next year or year and a half would go mostly to high-income people, be redirected to restore the community support services that have been on the verge of collapse, and that the government face up to the reality of the current social misery in the various situations we just talked about and allocate the money that previously was going to go to wealthy individuals towards those income support and community services.

Mr Tobias: In terms of the most marginalized people, those who are ill, those who are infirm, those who are often defined currently as borderline, ie, we still keep them on the rolls but we say theoretically they should work — but if you know any of them individually, you go, "Who's going to hire them?" — those people are getting phenomenal support from downtown agencies. Even things like the new workfare program will eliminate that. People who currently come into our centre now and get good support will disappear from us in six months. They will then go to another agency that has no stakehold in them and they will then go to another agency that has no stakehold in them. We have actually taken a phenomenal step backwards in terms of our capacity to care for the most needy people in our attempt to make sure that "a few abusers" don't slip through the system.

1420

Mr Tony Martin (Sault Ste Marie): I certainly agree, Mr Tobias, with your analysis there, that we're now into a situation where we're building policy around abusers as opposed to a comprehensive, fuller approach to actually solving some social problems that confront us that we all a vested interest in.

We had before us last week a person from the CD Howe Institute who suggested that we don't have any quality-of-life indicators in place to let us know just what the policies of this government are doing to people out there. Because we don't have those indicators, we really don't know and we can't quantify so that we can put before the government undeniable evidence that this is having the kind of effect you've described here today on the people you support.

One of my questions is, other than what you've described to us here, are there quality-of-life indicators out there that we could count on, depend on, and that might impress the government?

Mr Tobias: Let me jump from that, and instead of answering that, make a suggestion. How about a non-partisan government committee that asks some basic questions like: What are the basic quality-of-life issues Canadians should expect? What is the most basic amount of income required to live in a city like Toronto or Kitchener or Waterloo or whatever? We don't have that research, and where we do it's biased by partisan politics and it's biased by agency need. How about making a commitment to do research so that when we say somebody can live in Toronto on $6,000 or $7,000 a year, we might have something that actually says it's true, or if the number is really $14,000, we then might make a commitment. We need to do that research. No agency in the city has the capacity to do that research. Only government has the resources.

Mr Martin: Underpinning a lot of what this government is doing is the sense that people on welfare actually could be out there getting the jobs they suggest are there for them. You heard the woman before us say there are jobs going begging in the high-tech computer area. How many children of the families you run into every day would be able to hit the qualification of 94% and 97% to actually get into those programs and take advantage of those jobs?

Mr Tobias: Yonge Street Mission historically comes out of the old rescue mission tradition. That means we see people at the very end of the line. Let me tell you that most of the people we work with have a hard time qualifying for jobs as waitresses and waiters. In fact, we run a small coffee and muffin shop literally to teach street youth serving skills. I've watched hands shake over a pot of coffee out of fear of serving a customer. I've watched kids show up for work so foul-smelling that you send them into a shower. They didn't realize at any point in their existence that this was a prerequisite for employment. I don't think we realize how unskilled some of the people we're talking about are in terms of work environment. We're not talking about the same group we were just talking about before, in the last presentation. We're talking about a group of people who, if they're going to become employable, need phenomenal intervention to make that happen.

Mr Martin: Mr Vandezande, could you comment a little further for me on these secret meetings that are going on?

Mr Vandezande: The first ministers have been meeting with respect to the new conditions they think should pertain to what they call the social union. They are supposed to complete their negotiations, and they're all taking place behind closed doors, and conclude their agreement by July 1998, this year. We've written to all the first ministers, including the Premier of this province, and all the intergovernmental ministers and asked that the process be opened up, that public consultations be held, and since this directly affects the way in which we as Canadians live together within one country, that this become part of the overall discussion as to how we preserve a Canada that has Canada-wide standards, Canada-wide guarantees to people in need as Rick talked about, and that deals not be made without consulting major national organizations.

Mr Baird: Thank you very much for your presentation. I took note of your suggestions and they certainly merit consideration. Many of your recommendations, three of the six that you gave, were with respect to the federal government.

Mr Vandezande: No, they don't. They pertain directly to Ontario. The reason I say that, Mr Baird, is that —

Mr Baird: You say to press Ottawa.

Mr Vandezande: Yes. But that's precisely the point I made earlier in response to Mr Martin. When Ontario goes to the federal or first ministers bargaining table, it should think in terms of the national needs of this country. It owes it to Ontario citizens, Canadians, to press Ottawa to assume its federal, national responsibility and make sure that it implements, in cooperation with the provinces, the kinds of national policies that make sense in order to help eliminate poverty.

When in several of the recommendations we ask this government to press Ottawa to do the things that ought to be done, we assume that Ontario would want to take that position and that the finance committee could recommend both to the Treasurer, as he has asked, and to the Minister of Intergovernmental Affairs, Ms Cunningham, as she has asked, a mandate to negotiate the kind of social policies and fiscal policies that will make sure people in Ontario do not live in poverty and do not live in poverty anywhere else.

Mr Baird: We can't even get the federal Liberal government to stop cutting health care, let alone these things.

Mr Vandezande: My position is therefore, Mr Baird, that this government say: "We're going to take a stand. We don't like what Mr Martin is doing and we want to make sure that indeed at these national conferences of first ministers and health ministers and social services ministers we take a Canada-wide approach where we're going to have Canada-wide standards, Canada-wide commitments to the kind of core policies that will begin to eliminate poverty in this country, as promised unanimously by the Parliament a few years ago."

Mr Baird: My only suggestion would be that you may also want to take those to the federal government.

Mr Vandezande: I have appeared before the finance committee. I have met with Mr Martin privately and met with members of the Liberal caucus, and with members of the opposition parties.

Mr Baird: Good for you. Maybe you could ask them to give us back the $2.5 billion in health care they took.

Mr Vandezande: We have pressed for that, but that does not in any way relieve you of your responsibility as a committee to insist that there be appropriate standards in place, and that you respond positively to Mr Eves's request as to which family policies could best be put in place, and no longer condone the destruction of the family that now goes on because of the fiscal deficit reductions you've put in place at the expense of poor people.

Mr Baird: It's a comment more than a question. I guess there are two paths. We learned something incredible from CUPE this morning: that under the previous NDP government child poverty almost doubled in five years, up until 1995 when we took office, that spending more money, borrowing more money, taxing more money, regulating more, led to fewer jobs, less hope, less opportunity.

Mr Vandezande: Precisely.

Mr Baird: I want to comment as well in response to your question. I just looked through Mr Eves's presentation. He spoke extensively about job creation. He spoke extensively about the plight of young people who are searching for employment.

Mr Vandezande: But he did not speak about poverty; he did not speak about homelessness.

Mr Baird: He spoke extensively about the need to grow the economy —

Mr Vandezande: The point, in response to your first —

The Chair: Wait till he asks the question and then —

Mr Vandezande: But he asked it, Mr Chairman.

Mr Baird: No, I didn't. I said I was making a comment.

Mr Vandezande: He asked —

The Chair: Sir, please. Let him finish the question. We have a habit of taking all the time to ask the question and not leaving time for the response, I must admit, and I apologize for that.

Mr Vandezande: Yes, right.

The Chair: Mr Baird has the floor.

Mr Baird: The best social program at all is a job. If we can grow the economy — 314,000 net new private sector jobs were created in Ontario in the last 30 months. We think that's a good policy and we think that if there's one —

Mr Vandezande: This is not a question, Mr Chairman.

Mr Baird: It's not a question, no.

If there's one single thing we can do if there's someone living in poverty, it's to get them a job, that the old policies followed by my friends opposite killed jobs, put more children in poverty —

The Chair: Sorry, we're out of time, Mr Baird, please.

Mr Tobias: Let me suggest —

The Chair: Excuse me, please, sir. Mr Tobias, Mr Vandezande, thank you very much. We're out of time.

Mr Vandezande: Mr Chairman, I'm going to stay here until I can give an answer to the long position that Mr Baird put forward. I'm going to stay seated.

The Chair: Sir, I'm sorry, your time is up.

Mr Vandezande: But he used up my time.

The Chair: No, sir. The time is for the caucus to ask a question or to make a comment. He did not ask a question; at least he didn't get around to asking it. I do thank you for your time and I thank you for your presentation.

Mr Vandezande: I just want to go on record as protesting the procedure that is being followed. Mr Baird, if he had a question, could have put it. Implicit in his statement was the question do I favour more —

The Chair: Sir, I thank you for your time.

Mr Martin: Mr Chair, on a point of order: I would like to support Mr Vandezande in his contention that in fact it was his time. A half-hour is not a whole lot to make a presentation before this body that's making such very important decisions on behalf of the people of Ontario. I've sat here for about four days now and I've been actually put —

Mr Baird: You have not been here for four days.

Mr Martin: Could I have my —

The Chair: No, I'm sorry. I don't see your point of order. We're moving on and staying on schedule. The only thing I will say with regard to the question is I did extend it to allow you an extra minute and it was not divided evenly because of that, Mr Martin. I hope you appreciate that. Thank you very much.

Mr Vandezande: Mr Chairman, would you allow me to come back later?

The Chair: Sir, tomorrow's the last day and I doubt very much there are slots.

Mr Vandezande: I'm here tomorrow. I will be available.

The Chair: If there's a slot the committee will decide it, by all means. Thank you, sir.

1430

ONTARIO TEACHERS' FEDERATION

The Chair: The next presentation is from the Ontario Teachers' Federation. Please come forward.

Interjections.

The Chair: Please, children. One fool at a time here. Come on, please. Thank you.

Welcome. Thank you very much for your attendance. Please proceed.

Ms Susan Langley: I would like to take the opportunity to say we're very pleased to make this presentation today. I would like to introduce each of us so that you know who we are. My name is Susan Langley. I am the secretary-treasurer of the Ontario Teachers' Federation. Ruth Baumann is a senior staff member with the Ontario Teachers' Federation, as is David Aylsworth. Both Ruth and David bring years of practical experience, knowledge and history related to education finance. I'm the rookie here but I do bring 30 years of teaching, including 14 years as a principal and a vice-principal so I have hands-on school experience dealing with education funding right at the grass-roots level.

As I said, we're very pleased to present to the standing committee on finance and economic affairs the views of the Ontario Teachers' Federation as part of the Legislature's pre-budget consultation process.

As I know you're aware, the Ontario Teachers' Federation is a statutory corporation. It was created by the Ontario government in 1944 to represent the teachers of Ontario's publicly funded schools. At the present time our membership includes 126,000 elementary and secondary school teachers in the English and French, public and Roman Catholic separate schools of the province. I'd like to point out that the federation has always had a keen interest in the provincial budget, an interest given an even sharper edge this year with the decision of the provincial government to take complete control of the financing of education.

Universal access to elementary and secondary education is regarded as a fundamental characteristic of developed societies. Educational success has a profound impact on the life prospects of the individual, affecting one's career, economic and personal opportunities. There's no doubt, in listening to the former presentation, that we see the effects of not having that opportunity.

It is the significance of quality education as a lever for opportunity that has led directly to a lengthy series of court challenges in the United States regarding the adequacy and equity of state systems for the financing of schools. Mary Fulton, policy analyst with the Education Commission for the States, wrote:

"Over the years, state policymakers have struggled with the question of how much should be spent per student for education, or, 'What does an adequate education cost?' A clear descriptive process does not exist for defining, measuring or funding an 'adequate' or 'core' education. However, recent education reforms and court decisions have intensified the need for a usable model or procedure for determining the cost of a core education. The emergence of high academic standards and a focus on student results are shifting the notion of adequacy from simply providing certain inputs (teacher-student ratio, library books, instruction minutes) to determining what resources are necessary for students to reach their academic potential."

These resources include both financial resources and programs such as special education and remediation. Since 1989, no fewer than 11 states have had their education finance systems ruled unconstitutional by state supreme courts because of fundamental issues of adequacy or equity. Clear solutions to the twin challenges of fairness and adequacy have remained elusive across North America, and certainly in Ontario.

Successive Ontario governments have wrestled with these questions. This government has shown an interest in taking on difficult decisions such as the financing of education, but it remains to be seen whether the result will match the minister's pledge and his five key principles:

"(1) We will fund what it takes to ensure quality.

"(2) We will shift resources to increase spending in the classroom.

"(3) We will maintain current class size with a goal to reducing it in the early years over the longer term.

"(4) We will recognize the unique needs of students by protecting our investment in special education, children at risk, and English as a second language.

"(5) We will meet the demand for new school construction."

The development of a funding model which addresses all of these principles requires at a minimum two key elements: a societal consensus regarding the definition of quality — and I emphasize "societal" — and sufficiently accurate data regarding the real costs of program delivery and operation. The Ontario Teachers' Federation asks the question, does Ontario yet have either?

In the Common Sense Revolution, the Progressive Conservatives pledged to guarantee classroom funding, while claiming that savings could be found in other areas of the education budget. Between 1995 and 1997, the provincial government reduced the general legislative grants for recognized operating expenditures by $950 million. Junior kindergarten programs have been cancelled and adult education programs cut as a result; one of the most successful programs, I might add.

Parents and teachers alike point to a tangible deterioration in conditions in the classroom: complaints from Thunder Bay to Wingham about cancellation of special education programs, reductions in resource personnel for special ed students, increases in the number of students with special needs integrated in regular classroom with minimal support, a serious lack of current textbooks, overcrowding, and even peeling paint. At the same time, enrolment has grown by 1.5% to 2% per year and inflation has increased by 1.5%. The net effect, then, is that it feels like there's an actual loss of 6% to 7% per year.

Studies of teachers conducted by the Ontario Public School Teachers' Federation indicate that individual elementary school fund-raising has more than doubled in the past 10 years and that public elementary teachers spend, on average, $315 of their own earnings on classroom supplies each year. When schools have to rely on fund-raising for basics, inequities between schools and neighbourhoods increase. Rumours continue to abound, after apparent confirmation from the Premier in October 1997 and reports from government caucus retreat, that the Harris government plans to reduce expenditures for elementary and secondary education by at least $660 million in 1998-99.

We ask, is education spending out of control? In Where Has the Money Gone?, an article by Karen Hawley Miles and Richard Rothstein of the Economic Policy Institute, the authors analyse spending increases in nine typical US school districts during the period 1961-91 and conclude that much of the increase in education expenditure was due to specific program decisions designed to improve the success and quality of education.

Their findings indicate that more than one third of net new expenditures went to support special education programs, including teachers, paraprofessionals and transportation; 8% of net new money was devoted to new attendance, dropout prevention and counselling services; and another 7% was devoted to bilingual and compensatory education programs. Improvements in regular classroom education during the period studied by Miles and Rothstein were attributable to reduced pupil-teacher ratios in elementary grades, the introduction of subject specialists and increased planning time in elementary grades, resource teachers working outside the regular classroom and salary increases due to greater experience and training.

The Ontario debate has focused on whether expenditures for elementary and secondary education have increased too much and, if they have, where the blame should rest. Premier Harris, Finance Minister Eves and education ministers Snobelen and Johnson have been quick to point out that education property taxes increased by 120% between 1985 and 1995. However, what is conveniently omitted from this analysis is that the provincially mandated education mill rate rose by 67.2% during this period and that provincial funds from income tax and consolidated revenue as a proportion of overall education expenditure declined by 8%. By 1996, the decline in the provincial share of overall expenditure since 1985 had reached 14%, leaving school boards to pick up the slack.

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During this same period, the provincial government completed the Roman Catholic secondary school system, introduced technology in classrooms, mandated junior kindergarten programs and smaller class sizes in grades 1

and 2, undertook major curriculum revisions in grades 1 to 9 and required school boards to complete the implementation of special ed programs. Every single one of these government initiatives required real resources at the school and classroom level and were considered important by the governments that introduced them. The increased expenditures, then, were the direct result of provincial government decisions. To challenge the increase in property taxes as irresponsible behaviour by school boards is both unfair and false.

In January 1997, then-Minister John Snobelen announced his education reform package, including the amalgamation of school boards and the overhaul of the education financing system. In May 1997, Minister Snobelen released the education finance discussion paper and announced the appointment of expert panels to provide advice to the government regarding the most effective ways of handling accountability, capital and accommodation, learning opportunities, and special education. At that time, the minister announced that the expert panels would report by the end of August 1997 and that the details of the new funding model would be announced in the fall of 1997.

We are still awaiting the details of the funding model, which must be operational for 1998-99. The reports of the expert panels have not yet been released. Without the details of the model, the ministry cannot determine what allocation each district board will receive for 1998-99, and the district school boards cannot set budgets, make program decisions or determine staffing requirements.

The Ontario education system is under tremendous pressure at the moment, pressure which is only increased by the process of finance reform. The new district school boards are struggling with reorganization and amalgamation, difficult tasks even in times when transitional funding can grease those changes. Schools are implementing mandated school councils, preparing for the implementation of secondary school reforms and implementing the new curriculum for grades 1 to 8. I don't need to say enough that change is stressful and requires a reasonably stable environment to succeed.

The provisions of Bill 160 require that the district school boards negotiate a two-year agreement with their employees to begin no later than September 1, 1998. The legislation further requires that each school board comply with its average class size provisions and its requirements for instructional time. Most existing collective agreements require that notice be given to teachers who may be declared surplus or redundant by March or April of the preceding school year. That's next month. School boards do not yet have any details of the funding model or how much money they will have for their 1998-99 budgets and they find themselves unable to make decisions.

We propose 10 key questions that need answers right now: How much money will each district school board have for its 1998-99 budget? What restrictions will be placed on the allocation of funds at the board level? Will some spending categories have ceilings while others have floors? Will any identified savings from amalgamation be reinvested in the system? Will there be a flexibility factor for unexpected events, such as the ice storm in eastern Ontario or a sudden surge in immigration or refugees? Will there be a phase-in period for any of these changes? How will real differences in need be recognized, such as small school boards, remote boards, boards with high immigration, concentrations of special needs students? How will the funding model be modified over time, and what kind of process and, very important, what participants will determine the adequacy of the model? How will school boards be accountable for their decisions? What will be the process for setting the provincial property tax rate; will there be a debate in the Legislature? How will the provincial government be accountable for its decisions? In addition, what research will be carried out to assess the effects and the adequacy of the funding model?

The public is concerned. The Environics poll conducted in December 1997 showed that since the spring of 1997 education has become the single most important issue facing Ontario after unemployment, displacing health care for the first time in several years. Six in 10 Ontarians disapprove of the way the government is handling education, and seven in 10 believe the government is not listening to its constituents.

The same Environics poll indicated that nine out of 10 Ontarians believe that spending on elementary and secondary education should be maintained or increased, and that only one in 10 believes that spending should be reduced. Three out of four Ontarians believe the annual setting of educational property tax rates should be a matter for debate in the Legislature, rather than the undisputed prerogative of the Minister of Education and Training or cabinet.

In conclusion, the Ontario Teachers' Federation believes the process of finance reform must have integrity. It is not possible to cut expenditures and build a new model from the ground up at the same time and have the model be credible. Without the ability of local school boards to raise some revenue, there is no flexibility in the system to meet local needs or to deal with unanticipated events.

A high-quality elementary and secondary education system is an effective lever for individual success and economic opportunity, and for the success and opportunity of our society as a whole. In a system already under tremendous pressure, as I noted, it is critically important not to destabilize the system further.

The future of Ontario's children and its youth is at stake. It is imperative that changes be made in ways that benefit our students and our society.

The Chair: Thank you very much. We have approximately three minutes per caucus, starting with the NDP.

Mr Pouliot: Welcome. I have two simple questions, straightforward; perhaps a third one by way of supplementary. I wish to focus on page 4 of your excellent presentation: "The provisions of Bill 160 require that the district school boards negotiate a two-year agreement with their employees to begin no later than September 1, 1998." Would you kindly tell me, in view of the latest mandated developments, negotiate what? They don't have

the power to levy. They don't have the power to regulate class sizes. They don't have the power to set curriculum. Once you've gone through the process of "Good morning, how are you?" and, "More important, how are you?" what is there to negotiate?

Ms Langley: I think the sentences at the end of that paragraph support and confirm what you're saying. Ruth would like to embellish upon some of our concerns.

Ms Ruth Baumann: It is certainly our understanding what school boards and their employees will be able to negotiate in the next year as they try to amalgamate the agreements of the previously separate school boards will be agreements that reflect the funding envelope they're given by the government and there will be no opportunity to make decisions outside that envelope. Furthermore, they don't know what's in the envelope yet, which makes it even harder to work against a deadline of September 1.

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Mr Pouliot: Regardless of stripe, governments have responsibilities vis-à-vis the common goal, and what more important than that of education? I know your courage is great. You've suffered a lot. We've all been through collectively, you more so because you are front-liners, the need to create a crisis that has become almost proverbial in the annals of a relationship — overpaid, underworked, you know, minimizing, belittling the contribution that the most educated group in the province, that of 126,000 educators, have made. I am not an educator, I am a citizen who is the recipient of the benefits from education.

Do you find it, in terms of planning, passing strange that a month and a half before the end of one fiscal year, hence the beginning of a new one, six or seven months before the overhaul of a magnitude that has never been seen before, you can come here on the eve of budget presentation, ask 10 questions, all relevant, and get away from here at the end of the day, so near to the deadline, with not one answer? How can you manage the affairs of the state, how can you manage your affairs, if you don't have answers because nobody knows?

Ms Langley: I'm not sure whether that's a rhetorical question or you really want us to give you an answer.

The Chair: It is difficult from time to time. I appreciate that. Do your best.

Ms Langley: I think the bottom line at the end of the day is the students. Aside from what the teachers and the people we represent must live with, I think the uncertainty, the chaos, the crisis is in the eyes and the faces of the students that our teachers meet every single, solitary day. I think we are doing them an exceptionally serious disservice, and a disservice that will be reflected year after year after year.

Mr Pouliot: I thank you very kindly.

On a point of order, Chair: With respect for you and high respect for your tenure, your supplementary — I mean, humour does not become you — was not necessary. I apologize. I make the same ambiguous mistakes in more than three languages. Nevertheless, I have been here 13 years and it is my impression that you're not coming back, so the point is not well taken.

The Chair: Well, sir, if you want a question answered, you have to ask a question. If you want to make a statement, it's sometimes better to identify it as such and ask for a comment.

Ms Langley: If I may, I would like to clarify, because when I asked about whether it was rhetorical I was not in any way meaning to be insulting to the person who asked the question. I felt that we all were clearly understanding what kind of response would be given and that it is a serious issue.

The Chair: I thank you. For the government, Mr Wettlaufer.

Mr Wettlaufer: You address, on page 2, "The development of a funding model which addresses all of these principles requires at a minimum two key elements," and the one element is a "societal consensus regarding the definition of quality." I wonder if you could comment on the quality of an education system that stresses learning for learning's sake but yet will leave 42,000 students without a job once they graduate from university, when they could have high-paying jobs in the high-tech industry.

Ms Baumann: I think your question strikes at the heart of what we're getting at about this societal consensus. We believe there are those who believe that education is about getting jobs and there are others who believe that education is about learning in a more generic sense, about learning research skills, about learning all kinds of things and having a basic common knowledge with other Canadians, and that any real —

Mr Wettlaufer: So they can panhandle on Yonge Street?

Ms Baumann: No, not so they can panhandle, and in fact many of them don't. There are many people who have arts degrees and other degrees who are doing very well and some of them in those high-tech jobs. The issue —

Mr Wettlaufer: The arts degrees — they're not in the high-tech jobs.

Ms Baumann: Indeed, if you look at some of the recent reports from some of the major business groups, they're saying that the people they want to hire are people with degrees in the humanities, who have critical thinking skills, who are adaptable and who are able to do flexible kinds of work and research. I think the societal consensus we're identifying here is the very nature of the debate that you're engaging in with me right now.

Mr Wettlaufer: With respect, we heard —

The Chair: Please let her answer the question.

Ms Baumann: There needs to be a debate about what we want our schools to do and how we wanted to do it for them and how we meet those needs. That's a debate that has not yet been had in an open and public way in this province other than the fairly inconclusive conclusions of the royal commission.

Mr Wettlaufer: With respect, we heard a previous presentation from the Canadian Advanced Technology Association just this afternoon. They told us that a person with an arts or social science degree was not easily trained. That's the one comment.

Another comment different that this is, did you know, prior to or during the teachers' strike last year, of the many similarities between Bill 160 and the previous Municipal Act and the Education Act? I would just like a yes or no, if you knew of the similarities.

Ms Baumann: I think that there are a number of similarities that some of us were aware of. I think that doesn't have anything to do with the pre-budget consultation of the government and the standing committee on finance.

Mr Wettlaufer: It was just a comment. Thank you.

Ms Baumann: Some of us are fairly familiar with legislation.

Mr Richard Patten (Ottawa Centre): Thank you for your presentation. We only have three minutes so I just want to respond quickly to what I gather is the gist of your intent. You're saying, "Listen, don't take any more resources out. We're here in a position of living in limbo because we don't know what the funding formula is at this particular stage," even though it has been promised for more than several months, almost the better part of a year. I can certainly appreciate that.

You talked about some of the cuts that are there already. The Premier had said that the classroom funding for education will be guaranteed. I'd like your reaction to that statement, whether you think classroom funding or the classroom is affected in any particular matter. I'd like to concur and support your thesis. I think your estimate of the costs is conservative, small-c, because if you take into account the growth you allude to, if you take into account the transition costs that have to be absorbed by new school boards, if you take the growth in student bodies etc, you're probably talking in the neighbourhood of $2 billion, $2.3 billion. That's my estimate of what is lost in actual resources to the system. Is there or is there not an impact upon the classroom and the children in the classroom, given that financial position?

Ms Langley: I think I'll start and take you back to the findings that have occurred in the United States, that is, the definition of what is adequate and what do we mean by equitable. What I think we're into is a situation where what has been developed is a very narrow definition of classroom spending, so all of the things that you're talking about simply are ignored in terms of that definition. Therefore, we end up with an extremely inadequate and inequitable system.

Mr Patten: The government's definition seems to be one teacher and a classroom, no acknowledgement of the role of a librarian, a speech pathologist, a counsellor or anybody else in the system. Everybody knows that not all education takes place in that classroom. So it's an outdated, outmoded definition of a description of the costs related to the classroom. It's really what is related to the children's education and now that the fund-raising has to go into basics — and I know this because I see it happen in schools in my riding — schools are out fund-raising for basics.

Ms Langley: If I could refer back to a former question or comment about preparedness — aside from the fact that I have an honours degree in music and I feel my arts degree has managed to serve me well and my daughter graduated from the Ontario College of Art and she's an art director and is highly technologically literate and it has served her well, but that's a personal comment — I reflect back to the school system and the fact that it's through fund-raising that computers are bought. We must take a look at what supplies are available and what a properly and adequately stocked classroom looks like. I think that has to be part of it as well.

Ms Baumann: Our estimate would be that the loss just in the 1995 to 1997 period of revenue to the school system that should have been there for growth or we would have expected to be there for inflation in other times was in excess of 7% of what we think the real expenditures would have been if they'd been kept constant to 1995 standards. That's without the $950 million extraction.

The Chair: Thank you for your time and your presentation.

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ONTARIO REAL ESTATE ASSOCIATION

The Chair: The next presenter is the Ontario Real Estate Association. Gentlemen, welcome. Please proceed.

Mr Robert Storring: Good afternoon to you, Mr Chairman, and to other members of the committee. My name is Robert Storring and I am the president of the Ontario Real Estate Association. With me this afternoon are Mr Hugh Foy, chairman of our association's government relations committee, and Mr Jim Flood, director of government relations for OREA.

OREA is a non-profit trade association founded in 1922 that represents the interests of some 40,000 real estate brokers and sales people who live and work in every community in Ontario. We very much appreciate the opportunity to visit with you again this year and to share with you a few thoughts on the economy, the real estate market and some housing-related suggestions.

Last year we told you that the real estate market in Ontario was on a roll. That comment was borne out in 1997, as the statistics in our written submission indicate. Growth in 1997 resulted from a combination of low interest rates, pent-up demand and rising consumer as well as business confidence.

Despite recent increases in short-term mortgage rates, we expect 1998 to be a year of solid, sustained growth for the real estate market. The government's policies of deficit reduction, reduced taxation and streamlined regulations have resulted in lower interest rates, increased spending, strong job growth and increased consumer confidence. Those are the main factors that drive any real estate market and they are all positive at the present time.

We therefore urge that the government stay the course on their deficit reduction initiatives, continue to improve housing affordability by cutting red tape and needless regulation and promote further job growth in the province.

As noted in our written submission, the market for investment, commercial and industrial real estate is also positive for 1998.

I would now like to ask my colleague Hugh Foy to make a few comments with respect to the measures we would like the committee and the Minister of Finance to consider in the upcoming budget.

Mr Hugh Foy: As Robert mentioned, we're generally pleased with the economic development in Ontario, but, like all groups, we do have a few suggestions we believe would make the current situation even better.

First and foremost, we're here to ask that the existing rebate on land transfer tax provided for first-time buyers of new housing be extended to first-time buyers of resale housing as well. As you know, that measure was originally introduced in the Ontario budget in 1996 for a one-year period and was subsequently extended and is now scheduled to expire March 31, 1998.

It is our hope that the government will see fit to continue the program and expand it. There are a number of reasons why we believe that it is in the public interest.

First, the existing rebate program distorts the normal operation of the real estate market by favouring one type of housing over another. This government is on record as favouring a fair, balanced marketplace where consumers are given maximum freedom. The existing rebate program is not consistent with those principles.

Second, the original rationale for favouring new housing over resale housing may no longer be valid. When the program was introduced, the government explained that it was aimed at promoting job growth in the residential construction industry. The growth of new housing starts since that time would suggest the program has helped in achieving that objective. Employment in the residential construction industry is much stronger as a result. In summary, the residential construction industry may no longer need the rebate program to sustain jobs.

Third, the program discriminates against first-time buyers who wish to purchase homes in developed, usually urban, areas of the province. As you know, these areas attract little new home construction because there simply isn't land available to build on. As a result, individuals who may want to live in relatively mature areas are forced to live in the outer communities to take advantage of the rebate program. People should be given the opportunity to live where they want without the government attempting to sway them.

Finally, I want to make the point that the land transfer tax rebate program does provide a significant boost to the housing affordability. Encouraging people to buy homes, whether new or used, is a worthwhile investment by the government. Not only does each real estate transaction generate some $17,000 in spinoff activity; it promotes healthy community, financial security and other socially desirable goals.

Our second request has more to do with the process than it does the policy. During the past year, the government has undertaken a number of steps that could make a significant contribution to the housing affordability. Assessment reform, municipal service delivery restructuring and the development charges are three such initiatives. Unfortunately, it is too early to tell whether these initiatives will have a positive or a negative impact on the individual property owners. It's therefore important for the government to monitor how municipalities implement policies relating to the assessment reform to ensure equity and fairness. In like manner, the government should continue to work with individual municipalities to ensure that the restructuring of service delivery is revenue-neutral.

Last, recent changes in the way in which the development charges and education development charges are to be levied require vigilance by the government to ensure that the goal of housing affordability is enhanced and not frustrated. There are a number of other issues raised in our submission, which you may review at your leisure. That concludes our opening remarks, and we'd be pleased to attempt to answer any questions from the committee at this time.

The Vice-Chair (Mr Wayne Wettlaufer): Thank you very much. We have approximately eight minutes per caucus for questions and we begin with the government.

Mr Baird: Thank you very much for your presentation this afternoon. The overriding goal of the government's economic strategy is to help create a climate for job creation rather than investing directly. I can think of no other industry which is probably more sensitive to consumer confidence than the real estate industry, given the significant amount of economic activity generated by resale homes. This is the first question. Can you tell me how you feel consumer confidence and the boosted household income have affected the industry across the province?

Mr Foy: I think the interest rates alone have started, but I think that people are now getting more secure in what they're doing, and I think that job security is no longer a question with them and they really are starting to look at it. But we need every little initiative we can get to make them come across and buy homes. I know in my area the land transfer tax would have a big bearing on it because of the fact that it's not a lot of money, but it makes them want to buy the home.

Mr Baird: I know one real estate agent in my community said about 10 years ago, "If we could just get interest rates below 12%, we could sell every house we have on the market." Of course, it didn't happen when —

Mr Foy: I agree. I have been in real estate for 20 years, and we always thought that too, that if interest rates dropped 1% or 2%, the market took off. It has very little bearing on the marketplace now. People are more concerned about their overall and where their future is.

Mr Jim Flood: If I can jump in just for a second, I think the climate in the real estate market is probably absolutely as good as it has been in the last 10 years in Ontario, and I think the government can claim some credit for that in terms of the initiatives they have taken — tax cuts in particular is one area I can think of — that make housing more affordable to people by giving them more money to spend on housing.

Mr Storring: If I might jump in as well and reiterate that very point, the more money people have in their pockets, the more people who are eligible to buy houses, the more people who qualify to buy houses, and I think the

spinoff from that can't be ignored. In our report it does mention $17,000 worth of spinoff business from each real estate transaction. That $17,000, based on next year's estimates of 145,000 transactions in Ontario, manifests itself in $2.5 billion worth of extra business.

Mr Baird: You see that not just among realtors' fees, but among lawyers, and you see it through furniture stores, the fellow down the street who does painting or other home renovations. In my community Rona Warehouse is opening up just next week, 200 new jobs, the largest in Ottawa-Carleton, so a considerable boom in the home renovation business.

In my community the income tax reduction, for an average household, would be $150 to $170 a month, once it's fully realized, adding $150 to $170 per month to a family's pocket. Has your industry done any statistics in terms of the elasticity in the relationship between the price of someone renting and then realizing what is for many still a cornerstone of their dream and their goals in life to own their own home, as to how much the relationship between the rent and a combination of interest rates and consumer confidence and disposal income has in terms of somebody being able to go from renting to buying?

1510

Mr Flood: We haven't, as an organization. A number of the banks publish what they call affordability indices and publish numbers that yield something like the percentage of renters who earn enough income to be able to afford a house at a certain level within a given community. That type of information is around. Most of it is compiled by the banks.

Mr Baird: Does the Ontario Real Estate Association deal primarily with residential sales or does it also deal with commercial and industrial?

Mr Storring: We cover both but the majority of our members are residential.

Mr Baird: There's been some discussion with respect to the proper education taxes on industry and commercial properties, that we should go to a uniform rate. We could do one of two things: one is an asymmetrical tax cut for Metropolitan Toronto, the new city of Toronto, amounting to some $400 million, or the other would be to simply equalize the rates, bring the rates up in communities right across the province and then bring Toronto down. Do you know what the elasticity is of property taxes for those types of consumers, the industrial and commercial users?

Mr Storring: I'm not sure I can answer the elasticity, but I can say that we do agree with the concept of an equalized system right across the whole province, given the fact that it's very difficult to implement it overnight and arbitrarily introduce it. We understand that fact and we realize it probably will take a number of years to happen, but we do think it should be equalized.

Mr Baird: So if it should happen, but it should be over a period of time and not all at once.

Mr Storring: Exactly.

Mr Patten: Thank you, gentlemen, for your presentation. I was rushing to read through some of your points in your presentation here, which does look interesting. In your recommendation related to the tax rebate program, I thought you were going to recommend eliminating it, so I wonder why you didn't recommend eliminating it rather than expanding it given your vivid description of its having outlived its usefulness and its attempt to address a need that no longer exists.

Mr Flood: I guess the answer to the question is, you're right, we have to be a little bit careful here that we don't put ourselves in the position of throwing the baby out with the bathwater. We think the program, if it was originally designed to spur construction or job creation in the residential construction industry, has served its purpose. On the other hand, it has a second purpose, and that's to make housing more affordable for everybody. That's why we want the program continued and expanded.

Mr Foy: To add to that, I think it's important to understand that, as we said, in Brantford or in smaller communities it's not everybody who can build new homes and things like that. It's a stimulation to get the market going. Toronto maybe has had a strong market, but the January market in Brantford is very slow and very hard to get going. We're hoping that this initiative would maybe just put it over the top and generate some more sales and everybody would have a better spinoff.

Mr Storring: The purpose of putting it the way we did in this submission is if the government is considering extending it, they extend it to everybody.

Mr Patten: On the question my colleague across the way just referred to, you said the municipal restructuring should not result in additional costs being placed on municipal taxpayers. I'd be interested in your comments as you see the struggle of a lot of municipalities. My area is Ottawa-Carleton and both the city of Ottawa and the region are facing tens of millions of dollars of pressures in their budgets as a result of restructuring that hasn't even taken place yet. They either have to drastically cut or they have to charge enormous user fees, which is another form of taxation, or they have to increase property tax, or they have to increase business tax or realty tax, or whatever, somehow, if they want to maintain it, or some combination thereof. I'm wondering about your statement that this should not. How does that square with your observations around the province, with numerous municipalities raising the flag and the cry that they will indeed be facing those kinds of pressures?

Mr Flood: The problem in a nutshell is, who's got the numbers and what numbers are right? We don't have any independent research capability that allows us to evaluate whether, as an example, Mel Lastman's numbers are right or Mr Eves's numbers are right. Frankly, we work on the simple assumption that the government has said repeatedly that at the end of the day the numbers are going to be revenue-neutral. So far I don't think there are any municipalities in the province that have actually physically suffered a financial loss as a result of restructuring. I think there are a lot of people who say it might happen or it could happen or it's going to happen unless something changes, but in our judgement all of that is hypothetical at the moment. It is true, as I think our submission points out,

that nobody is really going to know what the effect of the entire restructuring process is going to be probably for another 12 or 18 months. Until we can see some independent numbers that we can trust, we're working on the theory that the government is going to be as good as its word.

Mr Patten: Maybe in the aggregate, but specific municipalities will be facing different situations. I think most municipalities felt that all municipalities would be supported through transition phases if there was a differential, number one; second, that there would be a revenue-neutral arrangement. If there isn't, then what's happening and where does the money go in the aggregate?

I submit to you that there will be — and I was pleased to see the provincial government acknowledge Mr Lastman's figures by coming out with the $200-million loan, tax-free I believe, plus a grant of about $50 million. I hope they proportionally do the same in my particular neck of the woods where the need is as great proportionally. I think that would substantiate that indeed there is some acknowledgement by the province, and I would say, if in fact there are these discrepancies, it will have an impact on your industry, because people will say, "Not again," if property taxes are going to go up. That would discourage people, it seems to me, from wanting to buy or to move from buying to renting or to downgrade their home or whatever it may be. I suggest to you that there are enough data now from the CAOs and from the financial people at municipalities that if you're not fair on it there's enough information out there to confirm that indeed they will be facing this whole experience.

Mr Flood: I don't think we disagree with the point that you made with Toronto. If you were the government you might argue that in fact there was a discrepancy in the numbers and that they did something to try and redress that inequity, and if the same thing happens in Ottawa and Nepean we hope they would do the same.

Mr Patten: I know there's this attempt to move towards that if you own a store in downtown Toronto you should pay exactly the same business tax as you pay if you owned a store in Smiths Falls or Perth. I'm not sure I agree with that, because that's only one slice of the pie. Indeed, if you look at salaries, they're a heck of a lot higher in Toronto than they are in Perth, if you look at what's available to people, the access to certain services, all those kinds of other questions. Unless there's some kind of appreciation of differentials regionally, I agree with the principle of equitable, fair business levels, but — well, I would say personally; I'm not speaking on behalf of my party — I have some problem with saying, "Well, the little guy in Perth has got to pay the same thing that the store owner or businessman or businessperson in Toronto is paying," because they're in two different environments, two different cost structures in their standard of living and in their expenditures and their opportunities. I don't know whether you agree with that concept.

1520

Mr Storring: If I might answer it, I think that's the kind of thing that's still unfolding. We do agree with a set rate, that it should be equalized; possibly assessed values themselves will take care of that problem. There is a difference in a value of a downtown building in Toronto and a downtown building in Perth.

Mr Pouliot: Welcome back, gentlemen. I think 1997 was a good year — well, better than 1996 or 1995 and some preceding years — and 1998 is shaping up to be — how do you see it so far?

Mr Foy: I think it's too early to know. I know there was a fair increase last year, but I think it's pockets. Some of the market seems to have started, but as I say, in some areas it's a little slower. I don't know if we know yet where it's going to come out at all. I think it's going to be reasonable, but I can't predict the future.

Mr Pouliot: I appreciated your answer during this debate as to the importance of the impact of interest rates. Of course, there are extremes, there's extremely low and extremely high, but grosso modo, generally speaking, they're not catalytic, they're not make or break. You've just listed some of it. You've mentioned government policies as well. That too is not catalytic; it's a factor. You have taxes, demographics; things do change. In our case, the Canadian population is getting older, you have the influx of immigration. All these have to be factored in. They're all a part of consumer confidence.

There's one thing I've learned over the years, and I need your help to see if you share the same sentiment, and that is that uncertainty does not call for a good marketplace. If people are anxious or hesitant, they are just as likely to withdraw or to stay put for a while. Do you sense, in view of what my colleague and friend Mr Patten has said, because we have many houses that are being reassessed — if I make, as a consumer, a 25-year commitment on the largest item I'll ever purchase — a quick fix, meaning revenue-neutral? I'm not imputing motive. I would want to see the other shoe fall before I engage myself in making a commitment. Do you think in some locations it will be more important than in others whether it is revenue-neutral or not?

Mr Flood: If the question is, "Are property taxes an important element in a home-buying decision?" I think the answer is yes.

Mr Pouliot: When we are talking about property taxes, some of us are just as concerned with the uncertainty, the anxiety, because you have assessment and reassessment. This is uncharted water. We're talking about 3.8 million units, and the Ministry of Finance, gentlemen, is saying we should expect 600,000 appeals. In the meantime, you're riding on an interim tax levy, which is 50%, inclusive of the BOT, the business occupancy tax, and then you condense your year and the tapes come for your general purpose and the school will be set. It's quite uncharted water. I shouldn't say I fear it, because there is a recovery, and we can finally sense it, we can relate to it. But we had better know quickly, don't you feel, where the other shoe will fall: What are my taxes going to be? What about assessment? What about appeals? Is the $200 million Mr Patten mentioned a quick fix? What about two

years down the line? What about government commitments? Will Toronto, for instance, be left holding the bag?

Mr Storring: If I might jump in there, I think all of the points you mention certainly are of some concern, but I think as we say through our report a number of times, the growing consumer confidence — in my personal opinion; this is not the opinion of the board — will outweigh that. There are certainly some uncertainties with assessment and everything else, but I think consumer confidence is growing at a faster rate, and I think it will outweigh those uncertainties.

Mr Pouliot: Especially in Ontario?

Mr Storring: Yes.

Mr Pouliot: I share your sentiment, and we keep our fingers crossed. I agree with you, because the Asian factor will not impact Ontario, should not. We're a manufacturing base more than a resource base in Ontario, and some pressures in other parts of the country, ironically, could benefit us by keeping the lid on some interest rates.

If you had to choose two or three items — and it's a difficult question — vis-à-vis your industry, job creation as well, what would you tell the government? If you could only focus on one or two items, and Mr Eves was right there and said, "You have a choice of two or three and I will do it," what would you tell Mr Eves? That's the job of this committee: to report back, through the Chair, to the Minister of Finance for the province, and he should, in his wisdom, take all recommendations into consideration, weigh each with and against the others and come back with equilibrium in his search for balance on the eve of the budget. What would you tell him?

Mr Flood: It doesn't relate specifically to real estate, but if we were to pick simply one issue, I think we would probably ask the Minister of Finance to concentrate on job creation. That's probably the single biggest determinant that affects the housing market.

The Vice-Chair: Gentlemen, thank you for your presentation.

INTERFAITH SOCIAL ASSISTANCE REFORM COALITION

The Vice-Chair: The next delegation is from the Interfaith Social Assistance Reform Coalition. Hello, Reverend Pfrimmer.

Rev David Pfrimmer: How are you? Nice to see you again. We appreciate the opportunity to be here with you today. I thought I would introduce the delegation for your benefit so you know who is representing the Interfaith Social Assistance Reform Coalition today. Reverend Susan Eagle is from London, Ontario; Ms Gabrielle Mandel is with the Canadian Council for Reform Judaism; and Sister Doryne Kirby is with the Canadian Religious Conference in Ontario.

The Interfaith Social Assistance Reform Coalition is a coalition of religious communities across the province. We've appeared here before. We've sought to address the continuing reality of hunger, homelessness and poverty in this province.

Ms Gabrielle Mandel: To begin with, I'd like to talk about Ontario's commitment to the poor. During 1997, the Interfaith Social Assistance Reform Coalition held hearings across Ontario to look at the impact of many of the changes that were being made to welfare and social assistance. These hearings were held in over 14 centres right across the province from June to November of last year.

I'd like to share with you one of the stories from some grade 4 and 5 students in a northern Ontario town. This story was retold at one of the hearings, and it goes as follows:

Poverty is...
Wishing you could go to McDonald's
Getting a basket from the Santa Fund
Feeling ashamed when my dad can't get a job
Not buying books at the book fair
Not getting to go to birthday parties
Hearing my mom and dad fight over money
Not ever getting a pet because it costs too much
Wishing you had a nice house
Not being able to go camping
Not getting a hot dog on hot dog day
Not getting pizza on pizza day
Not going to Canada's Wonderland
Not being able to have your friends sleep over
Pretending that you forgot your lunch
Being afraid to tell your mom that you need gym shoes
Not having breakfast sometimes
Not being able to play hockey
Sometimes really hard because my mom gets scared and she cries
Hiding your feet so the teacher won't get cross when you don't have boots
Not being able to go to Cubs or play soccer
Not being able to take swimming lessons
Not being able to take the electives at school (downhill skiing)
Not being able to afford a holiday
Not having pretty barrettes for your hair
Not having your own private backyard
Being teased for the way you are dressed
Not getting to go on school trips.

Sadly, this is not just their story but the story of over half a million children in Ontario. The situation today is worse than it was in 1989, when Canada pledged itself to the elimination of child poverty by the year 2000. The number of millionaires has tripled while the number of children in poverty has doubled between 1989 and 1995. That's a national statistic, but in our written submission it says that Ontario has had a 58% increase in the number of poor children. That's the national statistic, and I believe the statistic for Ontario is actually a 99% increase in the number of poor children.

1530

This statistic was taken before the October 1995 cutbacks to social welfare. Is not the economy for the well-being of all people in our society? Do we not have a special responsibility to those in need? Are not governments charged to safeguard particularly those most at

risk? What are the priorities for how we determine our provincial budget?

ISARC recommends that this committee should propose an all-party resolution that would agree to make the elimination of hunger, homelessness and poverty, as well as the furthering of social wellbeing, the priority of the budget of Ontario.

Rev Susan Eagle: The religious community is deeply concerned about the worsening situation for many of our families. Our front-line workers and volunteers see this crisis in faces of people who are our neighbours. We hear agonizing reports from food banks, from community organizations, from schools and family service organizations. We heard in testimony at the ISARC hearings, time and time again, of how difficult it was for low-income people just to make it through the day or through the week. The tremendous stress that this places on family and community relationships is punishing, but more importantly, the widespread sense of insecurity and vulnerability is truly alarming. For example, at our hearings we heard several times of people who were on the brink of suicide or who had experienced attempted suicides within families because of that tremendous sense of crisis. ISARC believes, along with other groups, that this is primarily due to the drastic cutbacks to benefit levels, to availability of affordable housing and to the reduction and elimination of many services in many of our communities in Ontario.

Families are poor because employment is not available to adults within the family, and it's not sufficiently available to meet family needs. Employment is an issue because profits are increasing while jobs are not increasing. November 1997 was the first time that quality jobs — full-time, permanent, with decent salaries and benefits — increased in Canada, more full-time jobs and a decrease in part-time jobs that month. So one of our concerns is not just job creation but quality jobs. Many jobs are low-wage jobs; in fact, many government policies, like for-profit competition for home care service agencies, are decreasing the wages to nurses and home care aides.

I serve on the council in the city of London, and we had a proposal the other night about transferring ambulance service, and already people are in the door offering to do it for less by hiring people who would be paid a lot less, so we're seeing many of those kinds of proposals. Creating jobs with adequate compensation is vitally important. Nevertheless, we believe that planning for job creation should be accompanied by income security measures that provide an adequate basis for families whose principal providers are either unemployed or underemployed. It is our belief that you can have neither a secure country nor a secure community, with large numbers of people desperate in the face of the economic insecurity of poverty.

In the face of what is a looming crisis, we do not see proposals or programs that will foster a greater sense of social security among low-income people; in fact, it's our belief that low-income people have taken the hit again and again in the last couple of years. We would encourage members of this committee to consider some of the proposals brought forward by the alternative provincial budget process. Religious leaders have met with the Premier and will be meeting with the leaders of the other political parties. We are asking for the proposals they are prepared to put forward to address these fundamental needs in our province. More of the same failed policies are not an answer for those who face this crisis day by day.

As an immediate measure, therefore, we are again calling for a moratorium on the tax cuts. We have called for a moratorium on the tax cuts ever since they were proposed and we continue to do that. We are also calling on this committee for adequate benefit rates based on a market basket approach to assessing income needs, or at a minimum, the reinstatement of the 21.6% cut that recipients who were on social assistance took two years ago. I might add that the 21.6% cut is still in effect. There has been no increase since it happened two years ago, and there has been the opportunity for at least two rental increases since people had that cut, so in fact it's more than 21.6% now.

Rev Pfrimmer: Canada has prided itself in its positive image as a global citizen within the family of nations. As a nation, we have voluntarily signed numerous international agreements such as the UN International Covenant on Economic, Social and Cultural Rights, the Convention on the Rights of the Child, as well as many of the various action plans from the recent series of UN summit meetings.

While signed by the federal government, it is the responsibility of the provinces to ensure many of the aspects of their implementation within their area of jurisdiction. Canada will be reviewed in 1998 for its compliance under the International Covenant on Economic, Social and Cultural Rights. Sadly, while Canada may pride itself in being a world-class economy, we may fall short of being world-class in honouring our obligations under these agreements.

ISARC has suggested this is an area which needs a proactive role from Ontario. All levels of government also need to be mutually accountable to the process of addressing human need. We are not so optimistic about human nature as to leave to any one level of government the sole responsibility for effective social programs. The federal government has been equally quick to avoid its responsibilities to the poor, as well as in the areas of education and Canada's health care system. The development of standards is vitally necessary, not merely from a contractual point of view but in terms of the federal covenant that binds Canadians as a national community.

Therefore, ISARC recommends that this committee recommend that the provincial government, in its negotiations with the federal government, ensure that there are substantial standards with effective mechanisms for compliance by all levels of government, that apply to Canada's social programs and ensure a fair share of the necessary financial resources for the people of Ontario and a commitment by all levels of government to honour our obligations to those in need.

Sister Doryne Kirby: Members of the religious community remain deeply concerned about the continuing subtle and not-so-subtle vilification of the poor in Ontario.

The continuing suggestion that people are poor because they are lazy, don't want to work, want something for nothing, and the lack of defence of those already suffering is nothing else but a double victimization of the poor. They suffer the ravages of being poor and hungry and they suffer the indignation of public scorn and contempt.

Many of the religious leaders who heard the presentations at the Neighbour-to-Neighbour hearings reported their shock at the level of worry and sheer fear that many low-income people feel today. Many were terrified that word of their situation might make their situation worse, and many were afraid the government might take their children because they could not provide for them on the miserly benefits they were being provided.

It was also clear that a dangerous atmosphere was afflicting the delivery of these services. Many religious leaders reported that it was clear that programs for the poor and marginalized are being managed in a manner which can at best be described as cold, calculating and arbitrary. We know that the poor did not choose to be poor. Sadly, elected leaders can set the trend. For some in public office, "welfare" is a vulgar and offensive word used almost with a sense of derision and condemnation. During the Neighbour-to-Neighbour hearings, we too were reminded of the ways in which members of the religious community can harbour similar attitudes and misconceptions. We need more leaders to speak in defence of the poor and the marginalized. Punitive public policies like Ontario Works and the lack of a public advocate can only lead to further social exclusion. Such exclusion can only serve to rupture the social fabric of our communities. To dispel the myths about poverty and to dissipate the public maleficent attitudes, it is important that we help people understand the causes of poverty and that we demonstrate our effectiveness in addressing them.

ISARC recommends that this committee call for the establishment of a social forecast concurrent with their fiscal forecasts to be tabled in the Legislature and an independent social audit undertaken regularly to evaluate the performance of public policies.

1540

Rev Pfrimmer: In conclusion, ISARC believes that in the face of fundamental challenges, leaders need to make fundamental choices about priorities. There will always be those who say, "Give me more, I want a tax break at all costs," but usually this is done at a cost to others. There are sadly those who want more because they feel they are entitled to more of our economic wealth than they need and more than they can ever hope to spend.

I am reminded, however, of a retired woman in her 70s, a generous woman, who supports through her charitable contributions many worthwhile causes, who said: "I don't want this tax cut. I couldn't sit down once to eat without thinking that the food that blessed my table meant someone else might not eat."

May it be that you and we all will listen to that small voice of conscience within us. It is our prayer for you that God will grant you wisdom to know what is right to do and the courage to do it.

The Vice-Chair: Thank you. We have about four minutes per caucus for questions and we will begin with the Liberal caucus.

Mr Patten: Thank you very much for your presentation this afternoon. There's certainly nothing I can disgree with in here, and would support it. The recommendation related to a social audit I think is a good one. Of course, there would be interesting debate on the indices to be used. Do you have a specific model in mind?

Rev Pfrimmer: I think more needs to be discussed about that, but I was just at the UN commission on social development last week where there was an extensive discussion. In fact, one of the non-governmental organizations just put out this report. Canada is cited in here around its performance on poverty issues. There is a whole series of indices that are used in this arrangement. There are many groups within the UN system and also internationally that are looking at the role of social impact statements in advance of policies, social forecasts tabled in Legislatures and then subsequently a social audit. Some of that work still needs to be done, but I think if there was a commitment to do it, one could develop an effective model by which one would table what we expect to be the consequences of our public decisions. That certainly has found a lot of favour within the UN system and among a number of countries. I think there are models to look at that would be very helpful in this regard.

Mr Patten: I think so too. If you have some specific ones, you might want to share that. It would certainly be interesting, and your views on that.

We had heard at 2 o'clock from Citizens for Public Justice. Mr Vandezande is with us still and I see his name related to your presentation, so I gather you work together.

One of the recommendations there that seems consistent with yours is that the remaining tax cut, which undoubtedly favours those with the highest possible income — in other words, it's not a progressive tax. If it were, then there might be some justification. If it were front-end-loaded to the lowest possible income and narrowed with nothing, perhaps, to people who earn over $200,000 or $250,000 or what have you, then maybe there could be some explanation. Is that your contention as well? The recommendation from that group was to take that balance of the tax cut at this time and to look at social safety nets that we have, and for those who are in abject poverty, to supplement what is available at this stage.

Rev Eagle: Certainly. I think we have to really look — the folks at the bottom are getting further and further down. For example, last week this government announced it was going to require that homeless people lose their $120 shelter subsidy unless they could provide receipts. One has images of people walking around with a filing system in their pocket as they try to keep track of receipts while they're homeless.

I asked our commissioner of welfare in London if I could know how many homeless people in London would be affected by that. The answer I got this week was zero. Nobody is affected because nobody is getting the shelter

subsidy now because of the definition of homelessness that this government produced two years ago.

You're not homeless if you're a transient person. People who are temporarily without a dwelling place aren't considered homeless. You're not considered homeless if you're sleeping in your car. You're not considered homeless if you're staying with different friends or relatives while you locate an address. You're not considered homeless if you're residing in a trailer, a tent or any other kind of seasonal vehicle.

When you've removed all the people who were disqualified by this new definition of homelessness, suddenly you found that there were no homeless people any more. But we know that those people are just being pushed further and further down, literally into the gutter. So to redirect money into those areas is really important. How far do they have to go before we start to see and hear them?

Mr Martin: Thank you very much for your comment and thank you for the work you continue to do around the province today in the face of a growing tide that opposes the kind of argument you present and your position and stories you tell.

We had your Neighbour-to-Neighbour exercise in Sault Ste Marie, which is the community I come from. It took place in the soup kitchen and it was aired on the cable channel. The response we all got from that was exhilarating. The stories that were told touched people in a place that caused them to understand more fully the pain that some of these folks are feeling and why. I think it's wonderful.

You make a pitch for a return of the 21.6% that was taken from the poor and a backing away by the government on the tax break. Bishop Henry in Thunder Bay put it a little bit differently. He made a pitch for the money that was stolen from the poor to be given back to them. He actually set up a fund that people could put their tax break into so that he could give it back to them in the ways that were available to them.

Whenever we raise that here in this place and in the Legislature, the members of the government always retort with the comment that it's not their money. The 21.6% that was taken away from the poorest and the most marginalized, the most vulnerable in our community, is not their money.

Rev Eagle: You're asking a deeply theological question here, so maybe David will answer it.

Rev Pfrimmer: Let me just say I think it is important. We also supported the People Before Profits campaign and there were a number of groups across the province that redirected their tax return, the money they received, to other social causes and to organizations that helped low-income people.

But I think you're right. When people say it's not their money, let us be clear. I'm speaking as a Christian person, a religious person. I think it's shared among the major faith groups in this province that all we have, the wealth we have, is not solely our own possession. Roman Catholic social teaching, for example, has a wonderful phrase that says that every possession we have has upon it a social mortgage, that it has to be used in the service of our neighbour. So what we get back in terms of possessions, in terms of tax cuts and things like that is not merely our own private possession to do with as we will.

The second thing I would like to say is that taxes are the way we fulfil our obligations to one another. The idea that taxes are somehow bad and therefore we have to cut taxes I think is one that needs to be countered by saying that we get a lot of good things from taxes and that they are a way we fulfil our responsibilities to one another.

The third point on this is that it is often said we are overtaxed in this country. If you compare what happens among OECD countries — let's take a comparison between the US and Canada. If you look at what we receive in terms of services and if you add in what in the United States you pay in supplementary costs for education and health care, the tax levels in this country are probably lower than in the comparable jurisdictions in the United States. I think this whole issue about taxes is really — I might say that to believe it is an act of faith and I think one that may be misleading to people and dubious at best.

1550

The Vice-Chair: Thank you. We will move to the government caucus. No questions.

I want to thank you for your time. The committee thanks you for your report, your input and it will be considered.

Rev Eagle: Could I make one further comment in response to this one? The government, in announcing its cuts last week, referred to the issue of accountability. We note the same documents were released two years ago in a press release that talked about savings of money, and now it's accountability.

The issue of accountability is one that rests with us, not with the people on the street or the people who are dying the death of 1,000 cuts. The question is going to come back in terms of our accountability to the most vulnerable in our community. I'd really like to turn that back to the government in terms of the question of accountability for us as to how we are going to care for those folks who are falling further and further behind.

The Vice-Chair: Thank you, Ms Eagle. Thank you very much for your presentation.

Mr Martin: On a point of privilege, Mr Chairman: I would like to put on the record that I find it passing strange that the government would not have even one question for those who come before us today.

The Vice-Chair: That's not a point of privilege, Mr Martin. Your time is used up. That's political posturing. It's not a point of privilege.

Mr Martin: Not even one question.

Interjection.

The Vice-Chair: Your time has expired.

Mr Phillips: Hansard will show that.

Interjection.

The Vice-Chair: I'm sorry, I have to call it. I am the Chair and the time has expired. We move to the next delegation now.

CANADIAN BANKERS ASSOCIATION

The Vice-Chair: The next delegation is the Canadian Bankers Association. Please come to the table and introduce yourselves for the record.

Mr Michael Green: My name is Michael Green. I am the Ontario director for the Canadian Bankers Association. We are delighted to be here today to attend the prebudget consultation.

I would like to introduce the members who will appearing for the CBA. Mr David Barrett is senior vice-president with the CIBC and chairman of the Ontario committee. Mr Tim O'Neill is senior vice-president and chief economist of the Bank of Montreal. Mr John Leckie is senior vice-president of the Toronto-Dominion Bank and a member of the CBA independent business committee.

Mr Chairman, in preparing for today's briefing we were told that we would have 15 minutes to provide you with the briefing and then leave it open for questions, and that we will be delighted to do.

The Vice-Chair: That would be fine, thank you.

Mr Green: I would like to invite Mr Barrett to start now.

Mr David Barrett: Thank you for allowing us the opportunity to be with you today.

The banking industry in our minds is a core business in Ontario and a major job creator. The 53 chartered banks and their subsidiaries employed 221,000 Canadians as of July 31. Of this total, 110,000 are employed in Ontario. The greater Toronto area alone accounts for approximately 31% of all bank employees, employing 69,300.

New areas of business such as telephone banking, personal computer banking, investment advisory services, trust and insurance services are among the areas creating new job opportunities in the banking industry. The banking industry is a key contributor to Ontario's economic strength and is strongly committed to job creation and sustainable economic growth among its small and medium-sized business sector. We have a very strong record of lending to the small and medium-sized business sector and, as my buddy John Leckie will allude to very shortly, we've made available $25.4 billion to more than 275,000 business borrowing customers in Ontario alone.

The Ontario committee, which I currently chair, is made up of senior bank executives with general management responsibilities for their organizations in Ontario. Each of the members is responsible for a sizeable number of business branches in the province. The Ontario committee members believe that education and training are important components to assisting small and medium-sized businesses gain access to capital.

I will take a moment to highlight two major initiatives we have undertaken in partnership with the provincial and federal governments, the chambers of commerce and other key stakeholders. In partnership with the Ministry of Economic Development, Trade and Tourism, the banking industry has participated in the government's seminar series Starting a Small Business. Approximately 2,000 seminars have been held in the last 10 years. We have successfully delivered a series of small business seminars entitled Partners in Your Success, designed to assist entrepreneurs improve their business financial planning skills, gain insight into federal and provincial support programs and services, and become export ready through sharing real life entrepreneurial experiences.

Exhibitor trade shows have been a major feature of each event, offering a valuable networking opportunity for entrepreneurs. Seminars have been delivered in Huntsville, Ottawa, Kingston, Toronto, London, Hamilton, Bradford, North York and North Bay. Some 2,500 entrepreneurs and business students have benefited from this experience. We have put in your package to take away with you today a more comprehensive list of initiatives that we have been involved with.

I would now like to turn it over to my colleague Tim O'Neill to provide an industry view on taxation.

Mr Tim O'Neill: Thank you for the opportunity to do that. Let me first begin by reiterating a point that many of us in the industry have made, and that is to commend the government on its success in reducing the deficit. To that end, we've helped over the last three fiscal years in contributing about $3.3 billion in taxes at the provincial and municipal levels in Ontario. In the past year, in 1997, approximately $1.4 billion in taxes were paid into the coffers in Ontario. That represents an increase of about a third over the 1996 levels.

Banks, as I am sure you are aware, are the most heavily taxed industry in Canada. In 1997 the Big Six banks paid almost $6 billion in taxes and levies to all levels of government in Canada. We pay them in a variety of ways and we pay the taxes not only that are typically applicable to corporations, but also taxes that are specifically targeted at the larger deposit-taking institutions. That's quite unlike our international competitors and quite unlike other sectors of the economy. I will return to that point in a moment.

We pay at the top federal rate of 28%. That's higher than manufacturers. It's higher than our competitors, the credit unions. We also pay provincial taxes at the highest rate. It's about 15.5% in Ontario.

If you do this in the context of the profits the banks make, which is the subject of some interest on occasion, from 1991 to 1997 the Big Six banks' profits in Canada increased by about 63%. In the same period taxes and levies increased by 75%. Taxes in Ontario rose by 98% over that same time period.

There are a number of potential consequences of that. In particular, let me point to the budget which harmonized the capital tax base with the federal large corporations tax base. That cost the Big Six banks alone over $66 million in additional tax costs.

I want to make a couple of key points about this. I made reference to our competitors internationally and to other Canadian corporations. The tax system does place Canadian banks at a competitive disadvantage with respect to other industries in Canada, and to non-Canadian competitors as well. Higher capital tax rates than non-bank pro-

viders, for example, are a key issue, and as a result of that, banks tend to earn a lower return on total capital.

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The capital tax in particular is, in our view, an inappropriate form of tax because those taxes are levied regardless of ability to pay. They penalize the very base which supports the generation of growth and income taxes. In effect, by taxing capital, you're taxing away the foundation upon which income taxes are going to be generated. They are, I think it's fair to argue, a disincentive to financial institutions that would be interested in investing more and creating more high-skilled, world-class jobs here and in other parts of Canada. That applies not only to domestic institutions, which I think are the typical focus of this kind of discussion, but also to foreign institutions that might be considering expanding their own base in Canada.

At the end of the day, and I think this is something that perhaps is not properly understood by many people, when you think of corporations as entities with a personality, whatever you may think that personality is, if you treat them as if they're persons, what you end up doing is forgetting that ultimately it is real people who pay those taxes. They're going to pay those taxes as employees, as customers, as suppliers or as shareholders. At the end of the day, taxes don't end up stopping at the doors of individual businesses. They end up at the doors of the people who work for, who supply or who are shareholders in those businesses. That's true in any firm, but if you are excessively taxing one particular industry, then obviously that is going to get passed on somewhere in Canada. The Ontario Fair Tax Commission noted that ultimately taxes on institutions are paid by people, something we should never forget.

Mr John Leckie: I'm John Leckie. I'm responsible for small business at the TD bank and represent the committee at our Canadian Bankers Association. Today I won't throw a lot of facts at you. I have two areas I'd like to quickly cover. One is about access to capital, and the second one is about how we're making it easier for small business to deal with the banks.

In the first area, we're pleased to report that the CEOs met with the Premier I think on September 6 and discussed the linkage between small business and the surtax Tim was talking about. I think a good consultative process has arisen out of that. We've met with Michael Gourley's people, the finance department's Steve Orsini, to be specific, along with the Canadian Federation of Independent Business. You're probably familiar with that association.

As a result we've developed a survey that went out by a company called Thompson Lightstone, along with a couple of Carleton professors who have had input into it. It's probably the first time we've ever asked the Canadian small business person, in this case residing in Ontario, about the demand for capital, and asked the question in the context of capital being both equity and debt, not just the debt component, which is usually what we end up talking about in the media or in these kinds of forums. But there is a relationship between debt and equity and we're trying to determine what the demand for access to capital is in that context and figure out what the gaps in the marketplace are for access to capital.

That survey will be released in March. I've seen a draft of it. I'd love to tell you a little bit more about it. It's going to be very revealing and helpful information, from what I've seen so far, and I'd really encourage politicians such as yourselves to have a darn good look at this and hopefully invite us back, and certainly Thompson Lightstone, the survey people, to walk you through this. I think it'll help all of us and most particularly the small business people who are trying to access capital. That's the first point I wanted to make.

The second point: I really think there's tremendous change going on in how banks provide credit product to small business. This arises both as a result of technological changes, the ability of portfolio management to come about for small business — I hate to raise the word because it conjures up images of high interest rates and they're not necessarily connected — portfolio management in the sense that we can tie analysis of the business more directly to credit bureaus and the payment behaviour of the small business and its owner. By doing that, the predictability of how that business is doing and whether or not it's paying its bills is a very good predictor of the health and survival probability of that business.

What that does for the small business person as well as the bank is that it obviates the need to get involved in a whole lot of rigorous analysis, it saves time in the interview process, it is more fair, it is colour-blind, if you will, and in the end I think it unquestionably, as we've entered into this process, provides faster, fairer answers. I think you're going to see new products developing. You've seen Visa products launched by the some of the banks. In our own case, we have a $50,000 small business Visa product with no fees to apply for the product and no monthly fees attached to it for ongoing provision of the product. I think you're going to see a lot of rapid change and improvement in this area. As I said, I'm responsible for small business at TD. We are not making these changes for altruistic reasons, I can tell you. We're doing it because it makes sense.

Small business, and I've worked in New York, Chicago, covered the corporate Fortune 500 all the way up and down the ladder, in my opinion is probably the last area where you truly can have a relationship with the business client, because they need us, the bank, and we need them. They are valuable and profitable clients when you add up their business requirements for the bank, tied with their personal business, and along with the business needs of their employees, who are also a market I'm seeking out. So you add it all up and it's a good, profitable business and we intend to grow it.

The Vice-Chair: Thank you. We have about four and a half minutes per caucus. We will start with the NDP.

Mr Pouliot: Welcome, gentlemen. The Canadian banking system is historically based on very strong fundamentals indeed. Your mandate, by way of your charter and statutes, sees you as a manager and facilitator of capital. With the human dimension, with stability in

growth as its ultimate, there is the perception, and I personally throw us a challenge, that in its evolution over the years, as the world becomes smaller indeed, as opportunities lie elsewhere just as much as they do in Canada, where we're less than 3% of capitalization through our markets, with the emergence of mergers and takeovers, keeping in mind that competition at the marketplace is the essence of our system — hence the perception by some and the worry of many that competition is losing its effervescence, or a "concern" that your role, while you adhere to your mandate, is becoming more one of world investment, with an eye to the consumer and the small business entrepreneur. I would like your competition blend to mandate integrate in the world community, participate more.

If I was to read your charter, your mandate of 10, 20, 30, 40 years ago, would I be able to recognize the same delivery as I am now?

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Mr Barrett: I'll take the first run at this, Mr Pouliot.

Speaking from our own organization, I think as an industry it still is fundamentally that our core purpose is financial solutions that help people, pure and simple. I think that's at the foundation of everything that we do. I think I can speak for my colleagues, and I'll let Tim and John answer, that basically we're still a people business. We will always be a people business, but we are going to change the way we do things because, believe it or not, the marketplace is demanding it.

There are a lot of people who are being affected by this change through this transitional period. I tell some of my colleagues that they're managing yesterday's bank for some, today's bank for others and tomorrow's bank for others at the same place in the same location — a huge challenge. We understand the dilemma for some of our clients, but as John said before, they're still very important to us. Tim, do you want to add anything?

Mr O'Neill: I think what's important to note, going back to your question about whether we would recognize the mandate from a historical perspective, and I think it's already been said, what is done and what will be done is exactly what we've always done as financial intermediaries. The way it's done, the way in which services are delivered, the quality of that service, the quality of the people who are delivering that service, that's what's dramatically changing.

I detected in your question a concern about whether we're turning away from the domestic market to the foreign market. Let me assure you that the total credit extended in Canada exceeds the total deposit taken in in Canada. We are servicing Canadian consumers and small businesses. What I think is important to recognize is that many people use the word "globalization" very glibly. In financial services it's inarguably happening, and what we as an industry need to look towards becoming is a company, let's say, like Nortel, where you have two thirds of your employees in Canada but only 6%, 8%, 10% of your sales in Canada. I'm not saying we're going to get in that position. What I'm saying is you can be an exporter and still service the Canadian market and still have a huge number of jobs for Canadians. This is a very huge employer and it's not going to change.

The Vice-Chair: We will move to the government caucus.

Mr Jim Brown: Good afternoon, gentlemen. You're probably my favourite group of witnesses. I used to have a small business. I have been out of it for three years but the scars are still there.

Mr Pouliot: Keep your jacket on.

Mr Jim Brown: I try to keep my jacket on. I didn't bring any money today because they were coming.

I notice that in one of your books there you've got that bank profits are not excessive. I would quarrel with that. But I look at the chart on page 5. I'm wondering if the rate of income taxes — you're complaining about taxes. If I draw a line across, it looks like you're paying in corporate tax about $2.6 billion. If you add that on to your after-tax profit of $7.5 billion, $10 billion in total before tax, your corporate rate of taxation would be about 30%, which to me is not excessive taxation, especially making $7.5 billion this year. I'm just trying to put that in the perspective of the small and medium-sized enterprises.

Again, like last time your guys were here, you've said that you've had a rebirth, you're focusing on lending money to small and medium-sized enterprises, which I would debate with you. CFIB, if you met them a couple of weeks ago, has a report, Credit Where Credit is Due, and in the surveys of their members in the late 1980s there was a credit problem; in 1994, 1993, 1992 there was a credit problem. About 30% of those companies that were still in business, the ones you hadn't closed, had a credit problem. It's only 29% now, so according to the Canadian Federation of Independent Business there's not that much of a change in terms of access to credit.

One of the other problems they point out is the fact that they don't have contact with managers because managers keep turning over, especially in Ontario and in Toronto. That's a problem that remains unaddressed.

Access to capital remains unaddressed, the turnover in the relationship remains unaddressed, and then CFIB — and I'm amazed that you said you met with them a couple of weeks ago or a month ago. I would be meeting with them quite regularly. They've got another research bulletin, The Price Is Not Right, in which they're talking about all the nickel-and-diming that the banks do I guess to every customer but particularly to small and medium-sized enterprises.

I have a problem. Do you talk to SMEs, do you know the SME market, and in spite of all of that which you said, do you really care about the SME market, the small and medium-sized enterprises?

The Vice-Chair: Mr Brown, I know that they would like to answer that question; however, you've used up all the time. I think there were hundreds of thousands of shareholders who were cringing. But we'll move to the Liberals right now.

Mr Phillips: I may just follow up on some of the same line. I think what is on a lot of people's minds is what looks like one merger coming and then the possibility of

other mergers coming and what that will mean for both individuals but also businesses.

My colleague did indicate that the Canadian Federation of Independent Business has done a couple of surveys that indicate some concern around this. They ranked the value for money on service charges in Ontario and small business ranked credit unions first, the Hong Kong Bank of Canada second, and then others. So they ranked the smaller institutions better than the larger institutions. I'm wondering how you respond to the concerns by the business community about being bigger, when it looks like in this survey they felt that smaller was giving them better value for money on things like service charges. How does the banking industry respond to what I think is a fair level of concern out there about fewer and bigger?

Mr Barrett: John wants to take a run at it first and if he leaves us time I'll try it.

Mr Leckie: I'll try and be quick. First of all, not all the banks agree on the last question you made, that bigger is better. Better is better, in our view. There's a debate over that and I think it's healthy we get that out on the table and the Canadian public sees how the various banks position themselves on that subject.

Insofar as the CFIB study is concerned, on service charges, the TD Bank froze its service charges in 1991. We have not increased service charges. I think what's really going on there is people are transacting more. They may be paying more but they're not paying more per service charge. We disclosed in our annual report the amount of service charges collected by the bank, by TD at least, and it's roughly 5%, I believe, for the industry in total. It's 4.4% of total revenues. It is not a growth area.

What is going on, though, is because of electronic banking and the ability, in the case of small business entrepreneurs, of moving money around on their PCs from an account that's paying them interest to one that isn't, they're moving it back and forth and they're transacting like crazy, and they're getting charged per transaction. They're optimizing the investment of their money, but I have debated that subject on television with Brien Gray, who wrote the thing you're referring to. You can get a tape of that if you wish. I don't know who won; it may have been a draw, actually. I think there's a lot more information that has to be fleshed out on that subject. You can't just take it on a superficial level.

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Mr Phillips: That's useful. A bank was in here recently, and they made the statement that the interest charged by banks for small business was lower than it was in the US —

Mr Leckie: Yes, it's about half.

Mr Phillips: — and then sent us the information, which I found helpful, because that's not the popular perception.

Mr Leckie: It sure isn't.

Mr Phillips: So if you have something on the service charges, I would find it and the committee might find it useful.

Mr Barrett: If I could just add to that in the sense that just slightly more than 50% of our clients do not pay service charges, but those who do, I will agree with you personally that we have not done a good job in proving to them that we're giving them value. I do not think in most cases the service charges are the problem; it's the value piece. We as an industry are going to work on that. You've probably heard of our campaign to improve our image. Part of the thing is for all of us to get in front of our client and let them know what they're paying and why they're paying for it, so the value piece is a big issue with us, as well as yourself.

Mr Phillips: You indicated in your brief considerable concern about the tax that has been in the last two budgets. It was designed to encourage the banks to make available capital for small business. I think most of us would support the objective of making access to capital better for small business, but you've expressed considerable concern in your written brief, not orally, today. What is wrong with a tax that encourages you to loan to small business, that you then can essentially, if you perform, earn it back?

Mr Leckie: The labour-sponsored venture funds get tax relief to do what we're being asked to do and they don't get the money out. They've only got about 30% or 40% of it out, and they're at the high end of the market, where it's a lot easier to put out equity or quasi-equity instruments. We're down here, where it's very difficult to make those judgement calls because there's very little information. Financials don't mean a whole lot, frankly. Under $5 million in sales, financials don't mean very much. Not only are we not getting incentive to do it, we're being taxed, so it's completely backwards.

Mr Barrett: Another issue to this thing too is, for us to be able to recover the money is such a bureaucratic nightmare that the banks quite frankly are not even attempting to recover it. First of all, it's not having the desired effect, and then the incentive for us to get the money back, as good as it sounds in theory, is very difficult to work because the paperwork behind it isn't worth the effort.

Mr Green: I'd like to add just one comment too. The whole incentive to lend to small business, it's the banks' largest portfolio and small business is one of the major components of that. As John had said earlier on, there's $25 billion worth of credit available for small business, so there is adequate capital out there. The problem is, is it debt or is it equity? This is what we are trying to determine through other means, through the research analysis, what the actual needs are. Certainly if it's equity, then people like the Business Angels and the labour-sponsored funds certainly have sufficient funds to do that, but the banking side is providing debt.

The Vice-Chair: We appreciate your input; we appreciate your time. Thank you very much.

ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Vice-Chair: The next delegation is from the Association of Municipalities of Ontario, represented by

Michael Power and Roger Anderson. Please approach the table.

Mr Michael Power: My name is Michael Power. I'm the mayor of the town of Geraldton in the great northwest, in the riding of Lake Nipigon. I'm the president of the Association of Municipalities of Ontario. With me I have today my colleague the first vice-president of AMO, Roger Anderson, who's also the chair of the region of Durham. As the government prepares for its 1998 Ontario budget, we trust that the comments we present today will assist the government in its deliberations.

We believe there are many tools and supports that the province can provide to municipalities that will assist us as we attempt to cope with previous and current provincial budget reductions, along with the additional costs and associated expanded roles and responsibilities that are part of the transfer of provincial programs to municipalities and to the property tax base.

Obviously, the government's significant transfer of services through the 1997 Who Does What announcements, coupled with the ever-changing financial information and revenue-expenditure impacts for 1998, are at the forefront of serious municipal concerns. There is considerable responsible apprehension among Ontario municipalities as they plan for 1998, 1999 and beyond. Many questions remain unanswered. There are grey areas that require accurate financial information from the province before any reasoned municipal budgets can be set. There are painful local decisions that must be made as municipalities struggle with service cuts versus program elimination versus negative impacts on the property taxpayers of this province.

For Ontario's municipalities, 1997 has been a roller-coaster ride, a year charged with expectation, disappointment and uncertainty: the expectation of getting the tools we needed to get the job done; disappointment as we watched an amended Bill 136 pass without the promised supports municipalities were told they would get, which municipalities expected they would receive; and always uncertainty — uncertainty about the scope and depth of regulations that affect how services are delivered.

Throughout 1997 municipalities continued to work with the province, providing advice and solid alternatives, offering workable solutions to complex problems and presenting options that made sense from the municipal perspective. Unfortunately, the government did not always take this advice. Generally, that cooperative spirit remains among the municipalities of Ontario, although that spirit has been dampened by numerous legislative setbacks and poorly advised policy announcements. It is a relationship that has been strained by less than clear, straightforward communications from the province.

The government's December 12 announcement of a new funding arrangement for the transfer of services still presents significant impacts and has left critical policy issues unresolved late in the implementation phase, issues such as the allocation of service costs in a two-tier government and how tax policy and reassessment will shape municipal revenues.

As we all know, in exchange for 50% of the residential education tax, municipalities take on the funding responsibility for about $2.4 billion in additional services. The thing to keep in mind is that we, as municipalities, do not get to manage many of these particular programs; however, we started paying for them last month. The provincial government is looking for municipalities to find, in the government's words, "reasonable efficiency savings."

For most municipalities, the government has set a rate of 1.7% of a provincially derived expenditure figure. What leaps out to us immediately is that for most municipalities, we have management control over less than half of these provincially derived expenditure figures. We can and should only be expected to find efficiencies in the costs we control. The situation that we find ourselves in is that the 1.7% target is significantly understated. This is a major cause for concern when we try to understand the real impacts of the December 12 service funding announcement and how to respond to these impacts.

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The provincial government has indicated that municipalities will have access to approximately $1.3 billion in offsetting funds starting this year. This amount includes the community reinvestment fund of $570 million, plus additional short-term money. Another serious problem begins to develop when we put the province's savings targets together with the duration of the funding assistance. Municipalities are being told to find $565 million starting this year, and that we should expect to maintain that expenditure reduction for the years to come.

When we add to that the elimination of the short-term component of the provincial funding for Who Does What, we find that municipalities in the year 2001 will be expected to absorb more than $1.3 billion in additional reduced revenues. This is the revenue gap the province expects us to manage; at least that's the gap based on the latest figures.

Before Who Does What and its impacts, municipalities had already managed a reduction in provincial transfer dollars in the amount of $1.1 billion from 1993 to 1997, $807 million in the last two years alone. We have managed these pressures by reducing our levels of service to our communities. In some cases, we have had to see services and some programs totally eliminated in order to manage.

As well, municipalities have changed their operational and administrative systems. They've reduced the number of staff, they've reduced the size of councils. Services are now shared, user fees are at a threshold, and to cope, some municipalities have deferred capital expenditures. Generally municipal governments have held the line on property taxes over the last five years and, as a last resort, some modest increases have occurred, and in addition some decreases have occurred.

The big question is that, given the amount of cutting, how much is left to cut in the part of the municipal budget that we have control over? Municipalities fear that we won't have money to provide essential services without property tax increases.

At our recent special meeting of the members, municipal representative after municipal representative rose to speak of their anger, their concern and their confusion over the fiscal situation in which Who Does What has put them, both in the short term and the long term. But despite the vented frustrations, there remains an understanding that solutions are at the table and we must remain at the table to find solutions to our common problems. We must set aside the political agendas and differences and agree upon directions that will best serve each and every property taxpayer in Ontario. Taxpayers expect no less of us; they deserve no less of us.

We know that 1998 is bringing enormous challenges to municipalities as we come to terms with the fundamental changes in the way Ontario's communities are governed and the way that public services are delivered and financed. We also know that many municipalities have reached their absolute limits and cannot absorb any additional financial burdens. The property taxpayer is not the solution to any further proposed provincial cuts. In fact, the transfer of responsibilities and financial costs announced in 1997 alone will only add to property taxes in many municipalities.

These municipal concerns should not surprise anybody in this room. The messages today from AMO and from its membership are quite simple: Municipalities cannot take any more cuts; municipalities cannot absorb any more additional costs; and municipalities need the tools and the support from the province to effectively and efficiently deliver the massive shift in service and funding responsibilities. We ask that the province keep these messages at the forefront of its 1998 budget deliberations and decisions.

We also ask that the government remember the stated goals and objectives of Ontario municipalities for provincial-municipal reform. These goals and objectives have been part of each and every representation we have made to this government. Some of you may have heard these expectations before, but we believe they bear repeating:

Municipalities expect clear and direct accountability. Responsibility and authority for municipally funded services must be through elected municipal governments and not mandated, special purpose bodies.

Municipalities expect pay for say. Municipal funders must have decision-making authority over the services and programs including control over costs, how the funds are spent and levels of service.

Municipalities expect clearly defined provincial and municipal responsibilities. The separation of services and responsibilities between the provincial and municipal levels of government will reduce duplication and facilitate innovative and cost-effective approaches to service delivery. In so doing, the public and property taxpayers will clearly know who is responsible and, therefore, who is accountable.

Municipalities expect maximum local flexibility. The government must ensure that province-wide standards allow for maximum local flexibility to plan and manage services according to local needs and circumstances. Prescriptive legislation and regulations will undermine the goal of flexibility.

Municipalities expect opportunities to find efficiencies. Municipalities require opportunities to find better and more affordable ways of managing services at less cost.

Municipalities expect predictable, sustainable costs and revenues. Costs of service and program transfers must be matched with the appropriate revenue sources and be sustainable over the long term.

These are not monopolistic, territorial goals and objectives. They are inclusive, reasoned and altruistic. They speak to the need for municipalities to have manageable control of the programs and services which they are responsible for delivering and for which they are expected to pay. They address the legitimate concerns of a legitimate level of government.

These are the goals and objectives that the voters of this province want their municipal representatives to pursue. How these goals and objectives have or have not been met will be explained to every property taxpayer in Ontario as councils set their municipal budgets and their municipal property taxes.

The province has stated that the well is dry, that there is no more provincial money, that municipalities will have to find $565 million in savings on programs that have already been pared to the bone. Municipalities are very familiar with empty wells. They have been managing with less and less over the years and are facing a dollar drought within their own communities. Many municipalities are placed in the unenviable position of having to go to the property taxpayer to make up the differences.

As much as we would like to ask for more direct financial assistance, we know the reality of this happening is slim at best. We know that what is within the realm of possibility is legislation, regulations and actions that support better government at less cost, not legislation and regulations that have a cost for the province.

Today, municipalities want to go on record as saying we are willing to sit down with the provincial government as partners, we are ready to find ways and means of making the job of cost-effective municipal governance a real possibility and we are able to offer and receive alternative solutions to our mutual, complex financial and regulatory problems. This is a willingness that has always been an integral part of AMO's work, and we believe that the development of an equal partnership between the province and municipalities is an achievable goal.

I would like to touch on several areas where we believe municipalities can make, and have made, a real difference in the bottom-line cost-effectiveness of municipal governments. These examples demonstrate municipal ingenuity and creativity. They are also examples of some key non-monetary steps that we feel will go a long way to assisting municipalities.

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First of all, there are many simple, short-term measures which will immediately assist municipalities to achieve savings and improve service delivery.

AMO believes that the province must continue the work it has started to eliminate the powers of special purpose bodies that have the authority to make decisions that have significant financial impacts on municipalities. Municipal councils, not special purpose bodies, must have the authority and accountability for how a municipal government spends taxpayers' dollars.

In the area of public health, as an example, the government is adding a new layer of compliance in conjunction with municipal funding by allowing for the appointment of assessors. The assessors will be permitted to assess compliance matters and "the quality of management and administration." Municipalities correctly question why the current compliance process is not sufficient and are concerned that this is an indication of the province's mistrust of municipalities with regard to public health.

In order to find the cost savings set out by the province, municipalities must be permitted to migrate public health services towards shared boards or towards single municipal government structures. In addition, municipalities should be permitted to employ the services of a part-time or shared professional medical officer of health, as circumstances deem appropriate. Providing flexible approaches to managing public health does not mean municipalities do not support public health programs. On the contrary, it means local solutions can better meet local needs.

We also believe that municipal restructuring has provided the opportunity to re-evaluate how programs and services can be delivered at a more affordable price to the taxpayer. The flexibility that has accompanied restructuring has, in many cases, benefited municipalities.

For example, in the restructured municipality of Chatham-Kent, in an effort to achieve cost efficiencies and quality customer service in the delivery of public utilities, the newly restructured municipality incorporated the functions and governance of the hydro-electric power and water commission into the municipal operations. Given that almost half of all the costs of municipal services pertain to water and electricity, there were obvious advantages in combining the work and responsibilities of the public utilities commission with those of the new municipality. This integration is estimated to save property taxpayers in Chatham-Kent $2.8 million per year. I am sure you will agree that this is a significant savings in costs.

While this example is a product of municipal restructuring, the ability to achieve these kinds of efficiencies should not only be available to restructured municipalities. They should be available to all municipalities where such an opportunity exists. The province must introduce legislation which gives municipalities the flexibility to merge operations such as public utilities commissions.

In order to avoid property tax increases as a result of the Who Does What transfer, the government says municipalities must reduce the costs of delivering municipal programs by meeting its preset targets. It stands to reason that if these savings targets are as achievable for the programs municipalities are paying for as the finance minister says they are, then the province also needs to realize similar savings in the programs it administers and then bills to municipalities for, such as public health, ambulance services, social assistance and social housing. This is fair and in the best interests of the property taxpayer, who is now footing the bill.

Municipalities do understand the government's fiscal agenda. We understand that the whole issue of whether the province's Who Does What agenda of transferring services and funding responsibilities to municipalities is in fact fiscally neutral seems to rest on the municipality's ability to achieve these savings targets.

That is why municipalities have called upon the government to give municipalities the tools they need to do the job the province is asking of municipal governments. If we are expected to fund and deliver certain services, we must be allowed to do so without provincial intrusion. It's the pay-for-say principle: If the government is getting out of the business and is no longer going to pay for certain services, it therefore should have no say in the municipal management and administration of that service. In instances where regulation is absolutely needed, it must clearly focus on the core provincial interest. Such regulations must be minimal and flexible, allowing municipal politicians to find ways to deliver that service more efficiently and effectively, while protecting the provincial interest.

It is critical that the government must have significant input from municipalities in the development of any regulation that directly affect us and property taxpayers. We firmly believe that it is in the best interests of both levels of government to develop flexible, inclusive regulations and legislation that will give us the widest possible range of options, options to meet the differing needs of municipalities in every region of Ontario.

There have been some successes in efforts to find that flexible common ground in legislation and regulations that have been to the benefit of municipalities without jeopardizing provincial interests. The fire services area is one example of where we have made significant strides. Bill 84, the Fire Protection and Prevention Act, gives municipalities greater control over fire services and the ability to set fire standards that reflect local circumstances and priorities. The Solicitor General is to be applauded for taking and acting on the municipal input and advice in preparing flexible guidelines that offer assistance to municipalities to fulfil their responsibilities in a way that meets local needs.

There are a number of regulations currently being prepared. Some regulations are already in place and others have been dragging on for a while. Regardless of the stage of preparation, the province must make a commitment to include municipalities in their development and, perhaps more important, to seriously take that municipal advice. AMO's test for the viability of these regulations is that they clearly speak to the provincial interest, that they be flexible and adaptable to local circumstances and that they

do not require a higher level of standard than when the related programs were delivered by the province.

The province has made progress in eliminating some prescriptive legislation and is to be applauded in these efforts. However, there are still provisions in remaining legislation that are overly prescriptive, inefficient and end up costing municipalities unnecessary tax dollars.

For example, under the building code legislation, there are requirements for several different inspectors to be involved in building inspections. While it would make financial sense to minimize the number of inspections while maximizing their effectiveness, current legislation prevents municipalities from doing this. Further, there are restrictions on municipal operations that are not placed on the provincial government, for example, on how information can be stored.

While on their own such things as amendments to building inspection requirements and greater flexibility on how municipalities store their information do not seem significant, cumulatively these types of amendments will help municipalities achieve efficiencies.

Perhaps the single most important provincial attempt at reducing red tape and simplifying rules under which municipalities operate is to enact a new Municipal Act. With the release last week of the draft act, our anticipation is that the proposed changes will finally give municipalities the level of flexibility they need to get on with the business of local government and to recognize municipalities as a self-reliant level of government.

We applaud the Minister of Municipal Affairs and Housing for his commitment to providing sufficient time for municipal input before the new Municipal Act goes to the Legislature. While AMO will be commenting on this at a later date, we would like to reiterate that it is a shared provincial-municipal interest that Municipal Act reform be a success. I know that by working together we can make this happen.

One program that demonstrates the positive outcomes of when governments work together is the Canada-Ontario infrastructure works program. It provides matching dollars from both the federal and provincial governments. With the upcoming completion of its second phase, there have been suggestions that the program may be extended for another year. Should the federal government indicate an interest, we strongly urge that the province seriously consider participating once again.

Municipalities must have the ability to recover their costs for providing services. Therefore, it is essential that the province establish a flexible and non-prescriptive approach to user fees and licensing. AMO believes that user fees are, and will continue to be, an appropriate alternative revenue source, because they are based on usage of services and in some cases are linked to consumer choice. User fees, however, are not the substantial answer to any revenue shortfalls. User fees have their limits and can potentially impede full access to some services by all taxpayers.

1650

As you know, the province is no longer subsidizing the costs of recycling. The net cost to municipalities in 1996 for recycling was about $43 million. Municipalities need a level of certainty about the costs and the means to address these financial costs. We are pleased that the Minister of Environment is in the process of reviewing funding options generated through a multi-stakeholder consultation process.

AMO continues to argue that income redistributive programs such as education, social assistance and farm tax rebate should not be funded from the property tax base. The changes to funding of welfare, child care and social housing constitute a serious financial liability for municipalities and property taxpayers. The financial risks associated with these important provincial programs should not be borne by property taxpayers.

The government has stated that it shares our goal to move these income redistribution programs completely from the property tax base. We are asking the government to make a commitment to municipalities to work on a time frame and economic indicators for achieving this goal.

While our shared goal is to remove income redistribution programs from the property tax base, in the interim the government needs to take the following actions. The actions that we suggest the government needs to take in terms of social assistance and GWA are laid out.

There have been positive moves on the part of the province, moves that are the result of provincial-municipal cooperation and actions that have aided municipalities. For example, 50% of residential education taxes have been removed from property taxes, we have retained the scope and breadth of development charges, we gained control over police services budgets and governance structures and we secured greater flexibility for municipalities in providing fire services.

As a government, you listened to the concerns of rural and northern municipalities over funding to them. You listened, you heard and you were willing to agree on a solution through the community reinvestment fund. You need to take that forward to listen to other sectors in the province and also find solutions for them. Obviously, municipalities and the province have many common and shared objectives. Key among them is that we work together to improve the economic outlook for Ontario and for Ontario's taxpayers. AMO and the government will work together cooperatively to ensure that happens.

We ask the province to work with us to ensure that actions taken by the government have no negative impact on property taxpayers. We believe strongly that by working together we can achieve the transfer of programs, services and responsibilities in a way that will provide the people of Ontario with better government at lower cost. Together we can further the course of sustainable and commonsense reform. We do not believe it is necessary to compromise the principles of good government to get there.

We thank you for allowing us an opportunity to share our views with you today.

The Chair: Thank you, Mayor Power. We are almost out of time. We have less than a minute per caucus. I'd like to proceed. We'll start with the government.

Mr Wettlaufer: Mr Power, I thank you for your presentation. It was relatively positive. I have to say that I come from an area, and as a result my views are biased, that has 440,000 people. We have seven municipalities. We introduced market value assessment in our area in the 1980s and that represented a significant windfall to the municipal council, the municipal government. True to form, they spent it.

The city of Cambridge decided they wanted a new city hall, and not to be outdone, the township of Wilmot decided they wanted a new city hall. The city of Kitchener, not to be outdone, built a new city hall. The city of Waterloo had to have its city hall. The region of Waterloo decided they wanted to build a regional headquarters, but because we had a population in various cities who were upset that one city might be selected over another, they decided to build two buildings, one in one city and one in the other.

There's tremendous waste in infrastructure. We see daily that a road is constructed and two days later the bloody thing's torn up because they forgot to put the sewers in.

The Chair: Thank you, sir. I'm going to have to interrupt and go to the Liberal Party.

Mr Phillips: I come from an area where my experience with the municipal politicians is that they're quite responsible on spending. I think they've been the level of government that probably dealt first with the fiscal realities of the country and the other levels of government have eventually followed them. I don't have experience in Waterloo that the member has, so I'm supportive of what the municipal councils are doing.

My question is on property tax. You don't mention it in here, but the clerks and treasurers, when they were before us on the property tax bill, indicated some fairly considerable concern about the implementation of it. They felt there was a risk that it wasn't coming together very well and could be fairly chaotic in the implementation. I know it's kind of early in the year but it's all beginning to hit now. Is AMO of the opinion that it's all working its way out and we shouldn't even worry about that, or are any of the concerns that the clerks and treasurers expressed to us beginning to pop up?

Mr Power: One of the things, as you know, Mr Phillips, is at this point in time all municipalities are putting out there interim tax bills which are based on 50% of last year's taxes and that's a fairly straightforward thing. I think what the clerks and treasurers may have been bringing forward is what we brought forward at AMO, our concern about reassessment and receiving the tax rolls in time and getting the new assessment in place in time. That is unfolding. They're being delivered across the province at this very moment as we speak, and we'll just have to see how that unfolds in the fullness of time. But in the interim, the interim tax bills, as far as we know, are progressing.

Mr Pouliot: Thank you, Michael; for the past 30 years always a renewed pleasure. Following what my colleague and friend Mr Phillips has said, the municipalities that you represent are already into their fiscal year. You will survive on interim tax levy but only for a while. You don't know the full impact of the devolution of the new responsibilities, the changes, and on top of that it's expected that 600,000 appeals will take place on the assessment and reassessment, with a condensed year. That must make you and the people you represent very nervous indeed.

Mr Roger Anderson: It concerns us greatly. Not only is it the assessment appeals, it's some of the information we're getting from the recently released assessment numbers. But it's not only those numbers that concern us, it's the numbers that continually change from the province. The numbers we got on December 12 created some concern, but we do know that the government is diligently working on more accurate numbers. We don't have those numbers, and until we get those numbers, you put that with assessment and you put all the other issues and compile them altogether, the impact is significant. It's those concerns that we'd just like straight answers on with real numbers so that we can deal with them all equally fair or equally unfair.

The Chair: That uses the time allotted. We thank you for your time and for your presentation.

Members of the committee, we'll adjourn now until 9:30 tomorrow morning.

The committee adjourned at 1658.

ERRATA

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Published by the Legislative Assembly of Ontario

Service du Journal des débats
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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Thursday 19 February 1998

Jeudi 19 février 1998

The committee met at 0931 in room 151.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Garry J. Guzzo): Can we come to order, please. We do not have a quorum, but the rules state that if we're taking in submissions we can start without a quorum. I propose to do that unless anyone has an objection.

BANK OF NOVA SCOTIA

The Chair: Our first presenter this morning is the Bank of Nova Scotia. Gentlemen, welcome and thank you for coming. We have an hour set aside and we hope you'll field questions when your verbal submission is completed. Please proceed.

Mr Warren Jestin: My name is Warren Jestin and I'm senior vice-president and chief economist with the Bank of Nova Scotia. Aron Gampel is vice-president and deputy chief economist. We brought two submissions today, one our forecast of the international economy, which I think is fairly important in explaining where Ontario's going in an international context, and also more specific writing on the province, which we've entitled Ontario's Economy is Firing an All Cylinders. As you can tell from the title, we're pretty optimistic about where the economy is going, not only for 1998 but also beyond. I'd like briefly to go through our economic forecast and our reasons for optimism.

In our view, Ontario will once again outperform the national average by a considerable margin in 1998, just behind Alberta in the race for provincial leadership for the second year in a row. Personally, I don't think we can catch Alberta, because there are a number of very strong fundamentals there. But being number two is certainly a lot better than the stance we had in the early part of the 1990s, and I think we are a solid number two not only for 1998 but for 1999 as well.

While the January ice storm caused activity to slip coming out of the starting blocks, in our view Ontario production should expand by roughly 3.5% this year. Alongside last year's gain of 5% or so, this marks the strongest economic performance this province has had in a decade.

The current expansion, as I mentioned, has a good chance of lasting into the new millennium because it is built on a very broad foundation. Consumers have moved off the sidelines, business investment is surging, exports are poised to set a new record this year and dramatic fiscal improvements are allowing governments to play a more active role in economic growth. In short, as our title suggests, for the first time this decade the economy is firing on all cylinders.

The long-awaited rebound in consumer spending has been a crucial part of Ontario's economic improvement because such expenditures account for more than half of real activity. Retail sales volumes rose by about 5% in 1997 and should increase by close to 4% this year, underpinned by spending on big-ticket items that had been put off earlier this decade. Motor vehicle sales were at an eight-year high in 1997 and are likely to record another solid gain this year, particularly with the average age of vehicles on the road now over eight years. That's moved up significantly during the 1990s. Furniture and appliance sales also will be supported by the continued upswing in housing activity.

While I'm mentioning a few consumer durables here, the important point is that we have a broadly based spending growth in train in Ontario, and I suspect that is going to continue well into next year.

Consumer confidence, in our view, will be supported by a gradual rise in purchasing power as household disposable income outpaces inflation for the first time this decade. The improvement is being fuelled by a pickup in job creation, rising wages and then the third tranche of provincial income tax relief.

Since the mid-1996 acceleration in economic activity, almost 250,000 jobs have been created in this province, representing roughly one out of two positions added nationally. In contrast to the first part of the decade — and this is very important — the net addition to employment over the past year and a half has been overwhelmingly full-time positions. Back in the early 1990s, we were destroying full-time positions and creating part-time employment. Nowadays we're solidly back on track with full-time job creation.

While the pace of hiring is expected to moderate this year, payrolls should show a net gain of nearly 125,000 in 1998. The year is off to a good start. If you look at the statistics for January, despite the ice storm that crippled the eastern part of the province, payrolls rose by a solid 39,000. The momentum of private sector job creation is now strong enough, in our view, to absorb the shocks from

heightened competitive pressures associated with cheaper Asian imports, consolidation in the retail sector and further public sector restructuring. What we're saying is that there is still going to be ongoing restructuring and obviously downsizing in some industries, but overall, the pace of hiring for the private sector is strong enough to absorb those and still register a solid gain.

Ontario's housing market also will be underpinned by heightened consumer confidence and excellent affordability. The five-year mortgage rate is now 6.85%, a percentage point lower than the average in the 1960s and only a half percentage point above the average in the 1950s. With housing prices still well off their 1989 peak, the percentage of family income now needed to purchase an average-priced home in Toronto is near the lowest level in two decades. In this environment, both the resale and the new home markets should register solid gains. I don't think the price improvement is going to be huge this year. I would expect that prices would be creeping up in general, but the volumes in the market will remain very strong.

Ontario and Alberta will account for most of this year's increase in Canadian residential construction. We expect housing starts in this province to reach 62,000 in 1998; that's up 15% from a year earlier and nearly 75% above the 46-year low we saw back in 1995. Ontarians will also be spending about $6.5 billion this year renovating their dwellings.

Capital spending will also remain in the fast lane. That's a very important leg of the overall expansion, because big investments in key industries such as transportation equipment, telecommunications, petrochemicals and entertainment are going to be complemented by major infrastructural projects. The strong trend of spending on machinery and equipment evidenced since 1992 is being reinforced by a resurgence in non-residential construction.

Vacancy rates have tightened after a prolonged downturn earlier this decade and space requirements have been substantially altered by shifting technology and market demand. All this points to a multi-year upswing in commercial and industrial construction. It's an important point to make, because typically when a non-residential construction cycle begins to take off, it doesn't last for six months or eight months or even a year; it tends to be two to three years and even longer. As a result, we are quite optimistic about this thing continuing into the new millennium.

The 1¾% rise in Canadian short-term borrowing costs since mid-1997, in our view, shouldn't turn this process off, shouldn't dampen investment plans very much. Even with the latest currency-induced rise in late January, our prime lending rate, which is 6½%, is only marginally above the average of the 1960s and is significantly lower than the 10% average rate experienced over the past quarter-century. It is also well below the current US rate, which is 8½%. It's an important point to make. Our rates are very competitive on this side of the border. Moreover, the rise in short-term borrowing costs that we have seen recently has been offset by reduced rates on longer-term mortgages and corporate bonds, which are used to finance capital spending. Essentially there you have a situation that if you're building a new facility, you're not going to be financing it by 90-day money or six-month money; you're going to be borrowing for the longer haul, and those rates have been going down significantly and are at very, very low levels.

Provincial exports should set a new record in 1998, though it's obvious that growth prospects are more subdued than in recent years. The US, the destination of roughly 90% of Ontario's foreign sales, is poised for another solid year of growth, and the drop in our dollar below 70 cents has enhanced competitiveness. However, US activity is moderating from last year's hectic pace and our currency is likely to return above 70 cents, to the 70- to 72-cent range by year end. In fact, this morning, on the basis of some fairly solid trade numbers, the currency has moved above 70 cents in recent hours.

0940

Export trends will be further dampened by the aftershocks from recent Asian turbulence. While Ontario has the lowest exposure of any province to the Asian market, with less than 3% of exports going there compared with 35% in British Columbia, a number of local firms will be hard hit. The Canadian dollar has risen dramatically against the currencies of Korea, Ontario's fourth-largest trading partner, and Indonesia, the Philippines, Malaysia and Thailand. The severe economic setback in these countries also has dampened growth prospects in Japan and other parts of the region.

It's important to put that in context. If you were to see the Canadian dollar at 70 cents today and then a year from now it fell to 18 cents, obviously this would have a massive impact on economic conditions in this country. Obviously this is not our forecast for the Canadian dollar, but that's exactly what happened to the Indonesian rupiah over the last year. There has been a 75% to 80% decline in the Indonesian rupiah against the Canadian dollar. The Korean won has adjusted, along with these other currencies I've mentioned, by 30% to 40%. Inevitably that's going to have a very, very substantial impact on international trends.

Even with a historically low Canada-US exchange rate, competition in the United States will intensify as a result of the recent massive international currency realignments. Profit margins will be squeezed as lower-cost Asian imports reinforce deflationary trends on both sides of the border. Export prices and earnings will also be affected. The fallout is already visible in commodity markets. Our Scotiabank commodity price index, which is weighted according to export contribution, has fallen roughly 10% over the past year.

Looking at specific industries in the province, we believe that despite prospects for slower US motor vehicle sales, Canada's auto industry is on track to assemble a record 2.6 million vehicles this year. This represents 18% of Canadian-US production and two times the share of Canada's sales. Production will be buoyed by a doubling in Japanese-owned assembly capacity and the recent

$1-billion retooling by the Big Three for the 1998 model year.

In fact, the auto industry has invested about $13 billion in the 1990s, and as a result, auto sector productivity is now better than in the United States. Local auto parts producers also will benefit from a combination of factors: increased vehicle assemblies, a proliferation of new models and an increase in the NAFTA rule of origin from 50% to 56%.

It's interesting to note that the content of domestically made parts in Canadian- and US-assembled vehicles has climbed to more than $1,700 per vehicle, which is up substantially from what it was a decade ago.

We're also pretty optimistic about the electrical and electronic products industries, things like telecommunications equipment, computer hardware and software. While increased competition from Asian producers may exert downward pressure on semiconductor and PC prices, production gains will be augmented by rising net business formation as well as the construction of new research and development facilities. Demand for telecommunications equipment remains extremely strong in the United States and in Europe. This industry, in our view, has a very bright future.

Switching over to the service side, tourism, which is already a major contributor to economic activity, has become one of the province's leading growth sectors. The number of short-term visits from the United States posted a record last year, alongside the expanded number of casinos in southern Ontario. The province's attractiveness as a favoured locale will get an additional boost from the softness in the Canadian dollar. We are very competitive in terms of being a tourist destination.

Rising US trade volumes will also underpin transportation and storage services and boost wholesale trade, which has been rising at an exponential rate recently. Business services will continue to benefit from ongoing public and private sector restructuring and the rapid pace of technological change. Canada's financial sector, which is obviously centred in Ontario, will benefit from buoyant domestic conditions.

Turning to the fiscal policy outlook, after a prolonged period of fiscal drag, governments also will be playing a more active role in economic growth. Ottawa is poised to move into surplus, and whatever the mix of debt reduction, tax relief and new spending announced in next week's budget, the overall impact on growth will be positive, at least over the near term.

I should explain that briefly. We believe that overall debt repayment is the best long-term strategy for improving fiscal flexibility, and tax cuts provide fairly durable relief as well. Short-term spending initiatives provide a boost in the current year, however. That's why we say all the options will be adding to growth. It's been a long time since the government and the private sector have been pulling in the same direction in order to support growth.

Ontario also should move towards surplus over the next few years, with stronger-than-expected revenue growth broadening the range of fiscal policy options even in this budget this year. The province has already indicated that this year's deficit will decline to $5.2 billion, $1.4 billion lower than last May's budget projection, and in our view the actual outcome may even be better than that, because the economy continues to roll into this year at a very solid rate.

Another year of solid economic growth and low interest rates should allow the government to bring the deficit in substantially below its official forecast of $4.8 billion, well below that figure. Personal income tax revenues will be boosted by strong employment growth that I referred to earlier. Retail sales and land transfer tax revenues will be lifted by gains in consumer spending and increased housing activity. Revenues from corporate income taxes will benefit from productivity-led gains in earnings. These beefed-up revenues will more than compensate for the reduction in personal taxes, an additional reduction in federal transfers and an anticipated, albeit modest, rise in program spending.

With a balanced budget looming on the horizon, Ontario is about to join the federal government and a number of other provinces in the great debate concerning the use of fiscal surpluses. While the Ontario government is committed to substantially reducing taxes, it is essential, in our view, that a large share of upcoming surpluses be channelled into debt reduction. Debt service, which currently absorbs 18 cents out of every tax dollar, about $9 billion annually, is clearly much too high and leaves public finances quite vulnerable to unexpected economic and financial market setbacks.

From a historical perspective, the longest expansion in the post-war period that coincided with low interest rates lasted from 1958 to 1967. Betting that the current seven-year expansion will last more than a decade, thereby allowing us to slowly grow our way out of today's heavy debt burden, stretches the odds well beyond prudent bounds.

The only way to reduce the vulnerability of government finances to unfavourable economic circumstances is to permanently lower debt service costs by paying down debt. As an example, even using relatively optimistic assumptions, $16 billion of the province's $107-billion debt would have to be repaid over the next decade just to cut the provincial debt-to-GDP ratio from its current level of 31% to 17%, which is the average level prevailing through the 1980s. This debt ratio in our view is the minimum policy target that the province should set for the first decade of the new millennium.

Focusing on debt reduction does not ignore Ontario's very large human deficit. While the provincial unemployment rate is still more than two and a half percentage points above the level at the beginning of the decade, there is ample historical evidence to show that this lingering problem cannot be solved by government spending. Similarly, we have learned from painful past experience that ignoring heavy debt burdens to concentrate on short-term fiscal stimulus has very large long-term costs.

In our view, strong underlying private sector fundamentals will create the jobs that put our provincial unem-

ployment rate on a downward trend. The government can contribute to this job creation momentum by promoting an environment conducive to new business initiatives and sustainable growth. Ultimately, freeing up the substantial sums that are now directed to debt service is the key to providing long-term flexibility and support for Ontario's increasingly knowledge-based economy.

In effect, we can afford better health care, better education and the like, but we can't afford to pay for these services alone as long as we're spending $9 billion servicing outstanding debt. That is really the dead-weight drag that in my view we have to get rid of over the next few years. Thank you very much.

The Chair: Thank you, sir. For the record, it was my intention to start with the NDP today, but we'll move to the government caucus.

Mr Gerry Phillips (Scarborough-Agincourt): How much time does each of us have?

The Chair: I'm going to divide it in three in case they show up. If they don't, I'll divide what's left at the end between the two caucuses. Is that satisfactory?

Mr Phillips: That's good.

The Chair: Excellent.

0950

Mr Jim Brown (Scarborough West): Good morning, gentlemen. Banks are always my favourite people to talk to in this room because I was a small business person before I got elected, as I am sure everybody knows.

I have a little bit of a bias towards SMEs, small and medium-sized enterprises, in as much as I believe they create 85% to 90% of all new jobs. I believe that over the past probably 10 years, certainly the past seven or eight years, the banks and their policies have not been amenable to small business, in fact were actually counterproductive. I think a lot of SMEs have been shut down. I guess the prime catalyst was the banks.

The Canadian Federation of Independent Business was in here yesterday, just before the Canadian Bankers Association. They pointed out that in their surveys of small and medium-sized enterprises there is still this resounding chorus of complaints against the banks and against the lack of rapport and the lack of communication: the fact that managers change constantly, so no manager could become aware of the needs of any particular little business, that there's great turnover.

The Canadian federation said also that back in the early 1990s, 30% of their constituency, I guess the ones that hadn't been shut down yet, were complaining about access to capital and competitive rates, particularly pointing the finger at the banks. Even in our improved economy of today, their current figures show that that 30% from the early 1990s is maybe 29% now; in fact that is the number, 29%. There's still this perceived problem, and these are companies that are still in business, not the ones that — if you ever did an exit survey of the companies that the banks have shut down, I think the numbers would be pretty terrible.

Finally, the Canadian Bankers Association said yesterday that they weren't making very much money. That was stretching it. They also pointed out that the $7.5 billion that the six majors made this year was after tax; they paid corporate tax of $2.8 billion, which, to me, is $10 billion before tax. That is a corporate tax rate of under 30%, which is a pretty low corporate tax rate overall.

With the service charges and the red tape that you put small business through and the SME sector being so important in Ontario and Canada, am I off base here?

Mr Jestin: You've raised such a large number of questions that it would probably take me the rest of the morning to go through them.

Mr Jim Brown: And I'm not finished yet.

Mr Jestin: I certainly can't comment on the surveys or the submission that the CBA has put in, because I wasn't here and I haven't seen them. But I can tell you that at Scotiabank we have paid, over the last three to four years, more in taxes than we have had in net income, and that is something that is a matter of public record.

The recent survey that we have access to indicates that Scotiabank approves roughly 80% of small business loan requests and currently we have more than $7 billion in authorized loans to more than 87,000 small and medium-sized business borrowers. Moreover, that's been a very substantial growth over the last few years, primarily because our management believes that is a key growth area in the economy. If you look at the various products offered by the bank in terms of professional loans and the like, we are trying to develop products that specifically suit businesses in the small and medium-sized business community.

Importantly, if you look at a survey from Statistics Canada that has followed exits, as you referred to, you will find that roughly half of businesses that were in existence back in 1989 are no longer in business. That doesn't mean there are fewer businesses; there's simply a very rapid turnover and a very high failure rate initially among a number of businesses, not necessarily for a lack of financing but simply because businesses unfortunately were not able to develop the market opportunities that appeared to be there when they thought up the idea. There is a huge turnover in the small business sector as a matter of course. Historically that has been the case, and Statistics Canada, as I said, has been tracking that very large turnover.

Within that fairly volatile market, I think the banks are doing a much better job. Certainly Scotiabank is focusing on that. You mentioned turnover in bank managers as being a complaint. We pride ourselves on not having a very high turnover at all among our bank managers. I travel across the country talking to small and medium-sized businesses all the time. I just came back from a tour of southern Ontario. Most of the managers I have seen there have been there for years. Inevitably, there's going to be turnover — people retire, people go on to other opportunities within the organization — but this is something that we recognize as an issue and we have tried to move to correct it.

Mr Jim Brown: Scotibank was my bank, and in the course of two years there would probably be three managers. I challenge you on that statement that there isn't turn-

over, because there is turnover. In terms of knowing my business and knowing my needs, they were just a local branch but they were in an ivory tower.

I'm glad to see that everybody is talking about it. Maybe you talk about it first and something will happen.

Mr Jestin: Something already is happening.

Mr Jim Brown: I hope you are born-again small-business loaners. I hope you will do that. I know my colleagues have a couple of questions.

I'm also concerned about what the current merger may do to our financial markets. I'm concerned that while the banks have been given a charter in Canada, a significant portion of their capital, or their loans, is not necessarily in Canada. There's an incentive not to be in Canada because there are different regulations and you can avoid some of the regulations in Canada. Those are gross overall statements.

There seems to me to be an attempt with the merger, those two banks particularly, to look to the foreign market more. Again, I'm very concerned about small and medium-sized enterprises. I'm concerned that merger will foster more mergers and that what will happen is that more of our Canadian-based lending ability will be done outside Canada and be a negative impact on jobs here in Canada and in Ontario.

We're using capital that we raise here, that you make money on here, and you loan it outside of Ontario. I'm concerned about that and I'm concerned about that reduction in competition. Heavens, there are six now; there are going to five. You guys will probably do something and we'll be down to maybe one bank. That would be terrible. There would be no competition. There's virtually no competition now. I'd like you to maybe comment on that.

Mr Jestin: I can't comment on the Royal and the Bank of Montreal's merger intentions or strategy. Certainly we're not involved in that particular one. Our chairman, Peter Godsoe, is on record indicating that he believes there should be a very full and frank public debate on this issue because there's obviously a lot of stakeholders involved here. In fact, that's what we look forward to through the summer and fall of this year, particularly when the McKay report comes down and we get some discussion.

Now, it's very important for the Ontario government to be looking at this, obviously because the Canadian banking system is centred in this province. At the end of this meeting I would like to table a speech I gave last year which was a summary of a report that we commissioned from the Boston Consulting Group indicating the importance of financial services to the GTA. It covers a lot of issues such as jobs and importance of the institutions to the economy. I encourage a very full debate. It's a very important issue.

In terms of the fact that there seems to be a lot of international lending, you're certainly talking to the right bank in the sense that among the Canadian banks, Scotiabank is the most international. We were founded in 1832. Our business developed through the Caribbean fairly extensively the last century. In fact, we were in Kingston, Jamaica, before we were in Toronto. We were in Chicago and in the various areas in the United States before we were in many parts of Canada. We are an international bank. In fact, that's where we make a majority of our earnings. Canadian shareholders — and that's the dominant ownership group of the Canadian banks and the Bank of Nova Scotia — reap huge benefits from that particular business.

Scotiabank stock went up by over 50% last year and over 50% the year before, and that reflects a large part of the businesses that we are doing in investment banking and corporate banking, which are international businesses. In fact a lot of the businesses in the retail side and the commercial side are important and fairly large businesses for Scotiabank, very important businesses, but they are certainly not where the majority of earnings are made.

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The Chair: I have to interrupt there. Your time is up. I'll move to the Liberal Party.

Mr Phillips: I appreciate the presentation, and I have a good deal of respect for Mr Jestin's forecasts over the last several years. I'll just start with your forecast on the gross domestic product. The government said when it put out its 1997 economic outlook in December, "To be cautious, Ontario finance projects modest real growth of 3.5%...0.7 percentage points below the current private sector average." In other words, the government is saying, "We're going to be prudently below the private sector forecast."

On February 10, the Minister of Finance indicated to the committee that the private sector forecast had dropped somewhat since December, down from 4.2% to 4%. If the government wants to be prudent in its GDP forecast, what do you think we should be using as a forecast for real growth in 1998?

Mr Jestin: Our forecast is at the low end of Canadian forecasts currently. In other words, we're fairly cautious about the outlook, optimistic about where we're going but among the other banks still fairly cautious, primarily because we believe that the Asian economic turmoil, which is largely in financial markets, will spill back into the export sector and create some pressure on various domestic firms, both in Ontario and across the country. That's why our forecast is around 3.5%. I think you would find that is a fairly prudent level. The tendency of governments, both provincial and federal, has been to discount the average of the private sector forecasts. I think something prudent may be in the order of 3% to 3.5%, if you're doing it on that basis. It allows for significant underperformance of what the consensus expects to happen.

Mr Phillips: I was interested in the tables on page 4 of your presentation and your advice to the committee to try to find a way to get back to some of the targets that were hit in 1989-90 as a goal the Harris government should be aiming towards, sort of saying, "Well, let's see if we can't get back to where we were in 1989-90 in the province." I gather you are saying the unemployment rate was around 6%, 2.5% below where we are now; and the debt to GDP in 1989-90 was down around 15%. It's up to 31% now, I

gather. Is that your suggestion to the committee that we set targets that were achieved in 1989-90 on debt to GDP? You have here that debt servicing as a percentage of revenue in those days was around 13%. Now it looks like it's around 30%. You'd suggest we look at some targets that we achieved in 1989-90?

Mr Jestin: The reason we stress this is that in this huge debate we now have on how to reduce the unemployment rate and get various sectors of the economy going again, there is an inevitable desire to provide short-term stimulus through spending on health care and education, obviously areas that have been under extreme pressure, and tax cuts to stimulate various activity.

But in my view the root of the problem currently is the fact that we have now channelled so much money into debt service that essentially we have locked off that particular revenue stream from areas that are needed more, so that as we go to a surplus situation we have to concentrate very seriously on getting those debt levels down. It takes a long time to free up that debt service cost, to reduce that interest payment, but the payback is forever. Once you've paid off the debt, essentially you have freed up that debt service stream in perpetuity. That's why we stress that as being absolutely the most important thing we should be shooting at. It has paid off big time for Alberta, obviously, in terms of its fiscal flexibility right now. In fact, even with an assumption that resource revenues are going to be down $1 billion because of problems on the oil and gas side, that province is looking for a surplus in excess of $1 billion, and may well hit something over $2 billion this year.

Mr Phillips: It may be tough for Harris to set a target that was achieved by the last year of the Peterson government. That may be difficult for him to aim for, but it's a fairly aggressive target.

The employment numbers are interesting to me, your chart on the first page, that real growth in 1997 in Ontario looks like around 4.8%, but employment growth was 1.9%. I'm very curious about that. I see in the government's economic statement here that employment growth for 1997 was 102,000 jobs. I see that this year your forecast is employment growth at the rate of real GDP minus one percentage point, which has historically been the formula that's used.

Should we be at all concerned about real growth at 4.8% and employment growth at under 2%? Is that just a one-year anomaly, or is there any possibility that we're seeing a difference in terms of employment growth to productivity growth?

Mr Jestin: That's a very important question. Part of the discrepancy, by the way, depends upon whether you use averages for the year as opposed to end points. Certainly, if you were to use December-over-December employment growth, the anomaly would be not nearly as great as it appears in this table.

Initially as the economy was expanding, businesses, be they small businesses, medium-sized businesses or large businesses, tried to accommodate the increase in demand without hiring, because they had just been through the wringer in terms of a very prolonged recession. Now, however, with demand picking up, there is a greater ability and a greater desire to expand capacity. In fact, what we're seeing in non-residential construction really reflects that improvement in demand. So I suspect what you will see over the next couple of years is a fairly healthy employment growth profile even as overall economic activity begins to moderate somewhat from that very rapid pace we saw in 1997. So that gap of 1% would be easily seen in the statistics, and we might even see stronger employment growth, in other words, the gap slightly closing, before the next couple of years.

Mr Phillips: One of the huge changes right now in the economy is going to be the property tax changes, which over the next two or three months are going to really impact everybody in Ontario. One of the big changes has been the elimination of something called the business occupancy tax, as you know; the business tax, they call it.

The net effect of that is — I don't mean to single out the banks, because you're with the bank. The business occupancy tax on banks was 75% of the realty tax. In other words, the banks paid realty tax plus 75%. Small business paid realty tax plus 30% — I'm generalizing here. The government has now moved to a plan where that's all equalized and the banks will find that instead of paying 75%, they're going to pay an average of about 42%. So their taxes will drop from the equivalent of 175% to 142%, about a 17% drop in property taxes. Small business is going to see theirs increase from the equivalent of 130% to 141% or 142%, a 10% increase. It's going to be quite a fundamental shift.

It seems almost counterintuitive that property tax reform would, if you will, have a very dramatic impact. I use the example of a bank tower. Some $25 million is what they're paying, on average, for property taxes right now. It's going to drop by $3 million to $5 million, and that has to be picked up by small business.

Have the banks expressed any view on that? Because that is going to impact on small business fairly dramatically. Have you, as an economist, looked at the impact of the property tax change on small business?

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Mr Jestin: The changes that have been occurring in the Ontario economy have been so widespread that it's almost impossible to do a detailed economic analysis on impacts. There are simply too many things happening in health, education, property taxes and the like to really sort everything out.

I must say personally that I would be astonished three years from now if banks were paying a whole lot less tax than they are today, given the current political environment. We have argued for a look at the tax system that is one that promotes efficiency, but certainly we have not been asking for tax breaks, nor do we quite honestly expect them in the next little while.

You do point out something that's very important, though. We have so many things occurring right now that forecasts for Ontario have a little more in the way of noise this year than they have had in quite some time because

we don't know the end impact of it all. My gut feeling, my belief is, though, that the private sector now has such strong underlying momentum that we will be able to push through these changes in various sectors of the economy and still have a very credible growth performance this year. I wish I could answer you in terms of the overall change in taxes but, quite honestly, trying to figure it out is virtually impossible.

Mr Phillips: It's very obvious, it's straight arithmetic: The government has decided to get rid of the business occupancy tax. There's a fairly clear article in the paper today on the difference, small business picking it up. They use an example of a bank branch tax decrease. As I say, it's just at a time when small business is feeling a little bit under threat, or a lot under threat, that this comes along, and for small business in my community it is literally, just like that, a 10% increase.

I want to talk a little bit about gambling revenues.

The Chair: I'm afraid your 12 minutes is up. Mr Martin, we were to start with the NDP caucus this morning. Rightfully or wrongfully, I made the decision that we would divide the time and start the other way and then divide the balance of the time equally. So that would leave you with about five minutes, sir.

Mr Tony Martin (Sault Ste Marie): That's fine. So you'll have another few minutes, Gerry, to follow up on that. Otherwise I would have allowed you to —

Mr Phillips: I appreciate that.

Mr Martin: It seems to me that any economic system should work for all of the people who live within the jurisdiction it affects. I didn't hear your presentation this morning — I apologize for being late — but the heading on your presentation, Ontario's Economy is Firing on All Cylinders, would present a picture that everybody is doing better now, that it's firing on all cylinders because of what's happened over the last two to two and a half years. I don't know if you've been watching the proceedings at all. We've had people before us here representing various groupings, various voices in the community, who are telling us a very different story, that in fact there is a lot of stress in the system, particularly at the edges.

Some people's perspective on what's happening in Ontario is that there's a lot of fraying going on, particularly at the edges. Poverty is up. Even in the small business community there's a lot of anxiety around the changes. At one point anyway — I haven't looked at it in the last month or two — there were record bankruptcies in the small business sector.

Certainly if you read the quarterly and annual reports of the larger corporations, they're doing well. Why isn't it translating down? Why are there so many people out there in my community really anxious right now, to put it mildly, about a system that's firing on all cylinders? Why is that?

Mr Jestin: That's a very important point. If you look through the paper that we presented, we're looking at the key sectors of the economy. But as you rightly point out, there are many areas of stress.

If you were to take youth unemployment in Ontario, for example, it remains extremely high, and if you adjust if for the number of people who have essentially dropped out of the labour force because they were discouraged or have gone back to school and the like, the rate is above 25% in this province. That is an extremely difficult one.

Also, cutbacks in public support for many areas have caused the social safety net to become somewhat frayed. At Scotiabank, while I am the chief economist, I also am responsible for public and corporate affairs and as a result get involved in a lot of sponsorship-donation issues. Very clearly, the banks and other large corporations are expanding very substantially the amount of support, but there's no way the private sector, at least a few organizations, can step into the breach and totally solve some of those problems. For example, last year we gave approximately $14 million in sponsorships and donations. A few years ago, a couple of years before that, it was only around $6 million to $7 million. There has been a dramatic improvement there.

I think a lot of the problem has to do with, first, a downsizing of a social safety net that unfortunately we found we were unable to support. The clear sign of that was the very rapid rise in debt that we had through the 1990s.

The second thing is simply the pace of change. If you look at the bankruptcy numbers, there's a clear debate as to why business bankruptcies have risen as rapidly as they have. In fact, they've peaked and they're coming down, but they're still at very high levels, and consumer bankruptcies are continuing to go up. A lot of that has to do with the fact that with the pace of change we have right now, you have both winners and losers created in many industries. There's a lot of good news out there, but there are still casualties because of the rapid shifts that are going on. In the case of consumer bankruptcies, of course, student bankruptcies have risen to a very high level, which has created a real challenge for the government in terms of its student loan policies and the like.

So while I wanted to indicate to the committee that we are optimistic that a broad thrust of the economy is very positive, we certainly do not ignore the many areas in the economy that have been marginalized or are still in fairly substantial problem.

The best assurance that we can afford to help these groups over the long haul, though, is to nurture a very strong private sector and to reduce government debt, because if we could free up some of the $9 billion in interest payments that we are using right now for health, education and welfare, we would certainly be able to perform a much broader service for the community than we can now. We have essentially had debt and debt service crowd out the money we need for other areas.

The Chair: We'll move to the government caucus.

Mr E.J. Douglas Rollins (Quinte): Thanks for your presentation. I know we've all got a lot of different things, and I was glad to hear my colleague mention the amalgamation of two of the bigger banks. I think that will certainly have more effects in rural Ontario than maybe it will in downtown metro areas, because in rural Ontario when you've only got two or three banks and the Bank of

Montreal is on one corner and the Royal is on the other, that means there is going to be one corner vacant. That bothers me as a member from rural Ontario.

The rate of paydown of the debt: I realize as a businessperson and everybody that we'd like to get our mortgage paid off. What kind of percentage do you see as a recommendation you could give to us as a government on how to pay that debt down, what kind of a portion of the surplus or whatever?

Mr Jestin: The big debate, the front-of-mind issue right now, is a federal rather than provincial issue, because obviously the federal budget is at balance now and moving fairly aggressively into surplus. We submitted a paper to the federal government about a year ago trying to indicate a very similar type of formula to what we have here, where you essentially set out a fairly aggressive schedule of paying down dollar debt.

Now, let's be realistic here. There are certain years where you're going to have a fairly strong economy and other years where the economy is going to underperform, so there has to be a lot of flexibility in this.

What we're trying to do here is to indicate that, among the solutions, we don't focus entirely on spending and tax issues, that we don't forget that the debt level has become so large that it is essentially crowding out a lot of options the government would like to have. We suggested in this paper that getting $16 billion paid down would get us back to the average level of debt service that existed back in the 1980s, as a general target.

But to try and say, "Okay, we're going to do this in 1999, this in the year 2000," and the like — I think most people would agree that the job the provincial government has done will probably get the budget balanced a year before the official targets, so this is really a very clear and present issue, that we shouldn't so much focus on, say, $5 billion this year and $3 billion the following year but set an end target and try to overachieve it. If you look at what has happened in Alberta, the political capital that has been generated by a fair commitment to this is absolutely enormous. I think that is a political lesson that is well worth learning.

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Mr Rollins: There's one other thing I would like to ask about, and I think we've got an example of that particularly with your service charges. As a businessperson, I look at my statement at the end of the month and I turn green. Yes, I've got an overdraft; yes, I've got cheques going through; yes, I've got service charges. You just nickel-and-dime us to death. At the end of the year, the dollars that we pay as small business people in Ontario who contribute to you people are astronomical. They're unreal.

A good warning to you people: Bell Telephone did the same thing, and Bell has had to restructure and take another look at another person coming in and getting service charges under control.

I'd like to warn you from a business point of view that you people are out of control as far as your service charges are concerned. Yes, they're only 50 cents and yes, they're only 20 cents, but the darned things at the end of the month are too much. If you people don't want to look after it, we've got other banks on the horizon at the present time coming in with a flat monthly charge that is quite lower than most of your people and who are saying, "Fine, we're not going to charge you when you push your card into that machine," that it's not costing me 50 cents or a dollar.

It's a little warning. I know my colleague has a question to ask, but I just wanted that on the record.

The Chair: Mr Arnott, you have a minute and a half.

Mr Ted Arnott (Wellington): I just have a minute and a half and I had a lot I wanted to say. Will we get another chance in a further rotation? Probably not.

The Chair: No, we will not.

Mr Arnott: All right. Well, I want to thank you very much for your interest in coming here to talk to us today. Your headline says it all: Ontario's Economy is Firing on All Cylinders. As my colleague Mr Martin said, there are still some people in Ontario who are not yet benefiting from the growing economy, but we're not done yet and we're hopeful that the strong performance of the economy will continue in the months ahead, supported by the policies of the government. That's our objective, obviously, and we're working towards it.

I was very pleased that you talked about the need for debt reduction. I brought forward a resolution in the Legislature last October calling upon the government to commit itself to a debt reduction or debt retirement plan over a 25-year period. I was pleased to receive support for that resolution from all sides of the House. The Ministry of Finance officials still have a way to go and we're working on them, but a considerable number of people have come forward through this process to support debt retirement. Obviously with the situation today, where we're spending $9 billion a year on interest, the fastest-growing government program, spending more on debt interest than on hospitals, for example, there's a crying need for an emphasis, once the budget is balanced, on debt retirement. Thank you very much for your recommendation in that regard.

I'm hopeful that Mr Phillips gets another chance to talk about some of the issues he's been bringing forward, the property tax on business for education. That's an issue he has brought forward. I think most of us here know that the Treasurer has acknowledged the inequity and is prepared to address it over time. The rates have been frozen, which is probably more than the Liberals and New Democrats did when they were in power. Certainly if the bus is to be turned around, it has to first stop, so that's what we're trying to do.

I'm hopeful Mr Phillips will also raise a couple of the things that came out during their years in power: the employer health tax, which was a payroll tax, a direct tax on jobs, which affected small business; and also the commercial concentration tax, I recall, which was a direct tax on business in Toronto. Those are also issues that came up during their time in office.

The Chair: I'm sorry. You don't get an opportunity to comment when we eat up the time with the question. We go back to the Liberal caucus.

Mr Phillips: I'll go back to the question just to indicate once again that I appreciate your advice to try to get the debt back to where it was in 1989-90 and the unemployment rate down to what it was in 1989-90, and the debt servicing costs and all those things.

I want to talk a little bit about gambling revenue and the impact it will have on the economy, because you've indicated in your report that the tax cut, in your opinion, was helpful.

The government, in its financial report dated December 31, said they are increasing the budget of the Trillium Foundation by $1 million so they can set up an agency which will distribute video-lottery-based funds of up to $100 million to charitable and not-for-profit organizations. So $100 million goes to charity, but that's as a result of getting $1 billion in revenue from the hardworking taxpayers of Ontario in the form of video lottery terminal revenues. They're going to give 10% to charity, but the government is going to keep 90% of it.

They also indicate an expenditure of $1 million to the Ministry of Consumer and Commercial Relations to set up a video lottery special communications unit, because they're going to need it; they're going to have to have this unit to try and persuade Ontario why it's a good idea to take $1 billion in revenue in video lottery terminals.

This essentially vacuums up any tax cut. The next, to use your language, tranche of the tax cut will be vacuumed up by the video lottery terminals taking $1 billion of revenue. Is that something we should, from an economic view, concern ourselves with? If the tax cut was helpful, would taking $1 billion out of people's pockets for video lottery terminals be unhelpful in the economy?

Mr Jestin: As a mere economist, I tread very carefully on the whole gambling issue, because it's much more a political issue than an economic one. The one difference between a tax and what's happening in the casinos and video lotteries obviously is that there is a form of choice involved in one, and as far as I know there is no choice on the other. So it's a very difficult one to actually argue.

I was down in Windsor giving a presentation last week and talking to a number of people there in the business community. They were, of course, hugely supportive of the local casino because of the 3,000 or more jobs that have been created down there. As a local issue it's a contentious one. It generates strong emotion on both sides. It's also something that is very complex, because on the one hand it is drawing revenues off; on the other hand, it is creating a certain amount of economic activity.

Mr Phillips: The difference in the Windsor one, I might add, is that 85% of that revenue is from the US. On video lottery terminals, I think the estimate is that virtually all of it will come from Ontarians. That's the one that I'm particularly, whether taking $1 billion, if you will — I know it's voluntary, but it's still $1 billion less of "disposable income" that would have been going to purchase presumably some of the goods and services that you feel are fuelling the economy and paying the retail sales tax on.

Has your organization, the bank, looked at the impact of $1 billion of video lottery terminal revenue?

Mr Jestin: No, we have not, in terms of the economic implications of it for the economy. In terms of a standard economic model, it would be positive in the sense of job creation and positive because it would be counted as consumption.

Mr Phillips: I'm sorry?

Mr Jestin: It would be positive through job creation and positive in terms of how it would impact consumption, because the actual spending of the money would be considered consumption in a statistical sense. But obviously it's a far more complex issue than simply that. I understand exactly what you're saying, because you can't spend money twice. If you spend it in the video lotteries, you're not going to be spending it on other things.

Mr Phillips: The government told us they are expecting even this year, the coming year — although I must say, Mr Chair, they promised they would give us this information and they still haven't. That was a week and a half ago.

The Chair: They're digging up what revenue we're losing now from the existing machines. Ask him what happens to the money that we don't even —

Mr Phillips: I'm not here to debate you. I'm just saying, Mr Chair, your job is to make sure we get the information. I'm just saying they promised us a week ago they would send the information, and we still don't have it.

The Chair: It's noted; you're correct. It was inquired into again yesterday. I'm looking after your interests, but I'm no more powerful in that department than are you, sir.

Mr Phillips: Point made.

The Chair: Your time is up. We do thank you, Mr Jestin and Mr Gampel, for your attendance and your submissions.

Mr Phillips: Mr Chair, while we have a moment here, I might also say that we are expecting similar information on the teachers' pension that has also not yet arrived.

The Chair: I inquired about both, as a matter of fact. I might tell you that I have verbal communication from Hydro with regard to the request, indicating that Mr Farlinger is in Ottawa today appearing before the Atomic Energy Control Board and cannot be here, but he will provide us with written documentation in response to your request.

1030

ONTARIO FOREST INDUSTRIES ASSOCIATION

The Chair: The next presentation is from the Ontario Forest Industries Association. Good morning and welcome. Thank you very much for coming. We have 30 minutes.

Ms Marie Rauter: Good morning and thank you very much for having us. I have with me today Dave Steuart,

who is chairman of my board. I am Marie Rauter of the Ontario Forest Industries Association. Mr Steuart is also president of the pulp group of Avenor Inc.

I would like to thank you for the opportunity today to address you about the Ontario budget, the Ontario economy and the role of the Ontario forest industry.

The Ontario Forest Industries Association represents primary manufacturing companies that operate sawmills, pulp and paper mills, and lumber, veneer and particleboard mills in more than 35 locations throughout the province. We have some very large companies such as Avenor and Abitibi-Consolidated. We also have some very small family-owned operations. In fact, one of our family-owned operations just celebrated 150 years in business; they're going into their sixth generation as a family-owned enterprise.

We would like to take this opportunity to convey to you the economic contribution of the forest industry to the province and the potential for this contribution to increase in the future.

You have one handout now. We're hoping that two more will come. The one you have is the Price Waterhouse study we did last year. That will be up to the end of 1996 in terms of the financial contribution of the industry. The two studies that I'm hoping will be here before 11 o'clock are two local economic studies, one in the northwestern part of the province, the other in the central part of the province, and the kind of contribution the industry makes in those regional areas.

We support the government's commitment to making Ontario the best place to invest in North America, and our industry is poised to contribute to the economic health of our province as much as any other. If government makes Ontario a more competitive jurisdiction for our sector, the industry can increase its positive contribution to help in the economic recovery of this province. When the industry is profitable, government shares in these profits, not only through increased taxation from both industry and employees, but also through our graduated stumpage system. Those tax dollars contribute to the health, the education and the social programs that are part of the fabric of Ontario.

The forest industry consists of a lengthy value added chain that begins with the harvesting of wood from Ontario's forests and it continues through to the production of lumber and wood pulp, and ends in a wide array of high value added wood and paper products. Every stage in the higher value added processing chain is represented in this province. Indeed the value of a cubic metre of wood escalates rapidly as it passes through the several stages of processing along this chain.

Many of the products produced here, from lumber to fine quality papers and wood products, are exported and contribute significantly to Ontario's economy. In 1996 the forest products sector contributed $3.9 billion to Ontario's international merchandise balance of trade. We are second only to the automotive industry. If you take a look at the figure that's attached, you'll see the large contribution this industry makes in comparison to many of the other sectors.

In 1994 the forest industry sector employed about 63,000 workers in Ontario, but this represents direct employment only. Since the forest industry is the economic base for many northern communities in Ontario, and forest industry jobs are close to the highest paying, the industry generates a high level of indirect and induced employment. This employment has been conservatively estimated as an additional 120,000 workers. The distribution of employment by sector in Ontario mirrors the value added chain.

While the industry is critical to the sustainability of many northern communities, more than half the direct employment in the industry is actually located throughout central and southern Ontario, where a great deal of the higher value added forest industry processing actually takes place. I think this is a real misconception of this industry. A lot of people think it's a northern Ontario industry only. It is also a southern Ontario industry, not only with respect to the direct employment but also the indirect employment.

For example, last summer we conducted a survey just of my members and we found that my members alone purchased in Ontario $2.4 billion worth of products and services. Almost half of that was in central and southern Ontario. In terms of many of the small businesses that sometimes aren't related to the forest industry, many of those are very closely connected to the forest industry, be it the corner garage where some of our material is serviced or be it some of the southern Ontario places where we might purchase a variety of services and products.

Not only do those jobs support many communities and thousands of families throughout Ontario, but we make a substantial and a rising contribution to Ontario's fiscal position. The industry's financial contribution through crown charges related to the harvest of timber has risen by more than 350% during the 1990s, and despite a very difficult decade, where only the 1995 earnings and return on capital reached acceptable levels, the industry has continued to make substantial payments to all levels of government in the form of income and payroll taxes, crown charges for the harvest of timber, and other forms of revenue. You might remember in 1995, when we made substantial profits, that people were saying, "How come you're making so much money and what are you doing with it?" If you take a look at that graph and look at how much money costs us, really the return on the investment and the return on capital has not been very good for this industry, and we're into some very difficult times again. One of the things we really need is some good public policy to continue and to make us a competitive industry for the future.

With that, I'd like to talk a little bit about advanced industries today, and we do consider the Ontario forest industry as an advanced industry. We compete in a global context, and from this global perspective we do face a bright future. The demand for forest industry products will be sustained in the next millennium. You often hear that with computers you're not going to need a whole lot of forest products, but the demand continues to increase. It's

increasing not only in North America but we see tremendous potential in the Eastern Bloc countries and also in Asia. But to succeed we need to have good public policy. This will encourage our international competitiveness and our capacity to expand with increased capital investment.

With that, I'd like to turn it over to Dave.

Mr Dave Steuart: Good morning, Mr Chairman and gentlemen. As chairman of the OFIA and as an industry executive, I can confirm there is a need for good public policy. A lot of people don't know — you people know — that 90% of our forests on which the industry is dependent are owned by the crown, and therefore the public is our landlord. This is contrary to our main competitor, the United States, where 90% of the forests are privately owned. So good public policy is a key ingredient for the continuing success and future contribution of our industry in this province.

The effects of poor public policy are currently being felt in British Columbia's forest industry. Stumpage fees, already the highest in the country, increasing by more than 250% in that jurisdiction since 1992, and the imposition of an extraordinarily process-driven, costly forest management code are two major contributors to the closing of pulp mills and sawmills, the layoff of thousands of employees and major restructuring of the remaining industry. In addition, although BC has 34% of Canada's pulp and paper capacity, it has attracted only 22% of recent planned capital spending.

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If there is good policy, there is incentive for more capital expenditures, increased productivity and improved efficiencies, resulting in a more competitive edge over other jurisdictions.

Recent positive changes that we have seen in Ontario include the streamlining of environmental regulations without adversely impacting environmental protection; that is, no longer testing for elements in the effluent that are not used in the process, harmonization between the federal and provincial environment ministries, one-stop shopping within the Workplace Safety and Insurance Board and the restructuring of Ontario Hydro.

As our industry becomes more complex and the markets we serve become more competitive, it is important for government to keep in close contact with our sector to understand the changes it is undergoing. This will enable development of sound public policy that is appropriately geared to the unfolding changes.

In the past, several factors that adversely affected our competitiveness included increases in crown charges and high and rising prices for electricity. Hopefully, crown charges have stabilized and the thrust towards competition for hydro will bring costs into line there.

However, a process we are watching closely with great concern is Lands for Life, a land use planning process. If substantial areas are set aside for single or restricted uses and not available for sustainable forest management practices, some communities and some companies will suffer hardships. How much will not be known until decisions are made on specific uses for specific lands. The impact will not only be felt in the north but, as Ms Rauter noted, throughout the province, as shown by some of the figures in southern and central Ontario.

We are actively contributing to the process and have engaged a number of consultants, including ecologists and economists, to help provide options that will ensure good forest stewardship of the lands while protecting jobs and communities. We believe there are win-win scenarios and hope these are the ones that will prevail.

Also impacting small northern communities, communities like Thunder Bay, Dryden, Marathon, Red Rock, Kapuskasing and maybe some communities that some members represent, is the Who Does What restructuring of provincial-municipal responsibilities. As a result of restructuring, many northern communities could find themselves in need of revenues to support greater service responsibilities. This is of particular concern in communities that have a single major employer, the forest industry. This could lead to additional municipal user charges or reduced services, both of which are of concern to our members.

A third issue we are following is potential Ministry of the Environment cost-recovery proposals, as enabled by Bill 57. We are in support of cost-recovery proposals that are clear improvements from a broad social and economic perspective and where any negative economic implications are carefully and deliberately managed. But cost recovery as a goal in and of itself may be arbitrary cost recovery and could result in negative socioeconomic impact, effectively working against the government's goal of renewed economic prosperity for the province of Ontario.

Therefore, what can government do? Where should policy be directed, in our view? First, continue the streamlining process to reduce red tape. Continue reviewing regulations to ensure that they are relevant in today's world and meet their objectives in the most effective, efficient way possible. Maintain a market-based stumpage system where in the good times industry shares in the profits with government and in the poor times government shares the pain with industry.

Work with industry to understand its changing world. Understand the marketplace we work in. Understand the competition we face. Finally, consider government policy in concert with a taxation system that encourages sustainable economic development that will in turn pay the taxes to support our socioeconomic and health net. Thank you very much.

Ms Rauter: That completes our verbal presentation. I recognize that in terms of some of the recommendations, they may not be as focused in terms of the budget as some of the other presentations you've had. But it's when you're allocating dollars to the various ministries and the programs the various ministries have, that's where the ripple effect comes back in terms of our being able to operate as an industry.

The Chair: Thank you very much. We have approximately four minutes per caucus. We'll begin with the government caucus.

Mr Rollins: Thanks for your presentation. I am fortunate enough to have probably one of the largest pulp and paper mills in my riding in Trenton, at Domtar. They're

certainly a huge contributor to not only the workforce, but I think they do something else that many of us who haven't been through that plant don't realize. The recycling of paper they put through that plant basically since the conception of that plant — they recycle a horrendous amount of paper. Sometimes as high as 60% of their output is in recyclable paper, depending on the logs coming in or the type of wood.

We had the Minister of the Environment down this year when they opened up one of their inner loops, as they call them, for recycling water to make sure that nothing gets back into the Trent and into the Bay of Quinte for the system to be polluted in any direction. It certainly was a big improvement on their operations down there over what they have done in the past.

One of the things that many of my constituents have expressed concern about is one of the byproducts, Dombind, as they call it, the road liquor they spread on the roads. A large number of townships throughout eastern Ontario buy that or get it free from them. Do you have any comment on the cooperation we've had, through the Ministry of the Environment, to make sure that product stays — they claim it doesn't harm. There is a product that unfortunately comes out of poplar wood; it's not manmade but just grows in there, and there is a byproduct. I forget the name of it; phenol, I think.

Ms Rauter: There is a byproduct. It's because the mill at Trenton has done such a good job at reducing water and such that it's much more concentrated now than it was before. But in terms of volume, there is probably a reduced volume from what was there in the past.

Another name for liquor is also sludge. The industry has worked very closely with the Ministry of the Environment in making sure that the sludge is environmentally friendly if you're going to put it, not only on roads, but it also goes as a conditioner on soil. Most of that is organic material, the little finds that come out of wood.

We've done a lot of work working with farmers throughout the province. Domtar has done a lot, not only in Trenton but in the Cornwall area. It's a very good conditioner for soil, and that has been done for many years now. We've worked very closely with the Ministry of the Environment and feel comfortable with it. We are developing guidelines to try to make the public also comfortable with what is produced.

Mr Rollins: One of the other things they've done down there too, they've had some recycling of some soil they've had problems with, that has been contaminated over the years on properties adjacent to them. They are putting it into greenhouses and growing corn in it. The corn recycles the energy out of it and the end product is that the soil is purified. It's taken back. It's a little bit slower process, but they have some greenhouses down there with this contaminated soil and after they grow the corn under certain conditions in it, it purifies it.

There is a lot of experimental outreach from your people as far as wood product producers are concerned, and we appreciate it very much.

Ms Rauter: I am pleased to hear that from you because if I have one criticism of my own industry it's that they don't advertise the good-news stories and there are a lot of good-news stories out there. Those are the kinds of things that we somehow have to get out to the public, because there are many, many of them.

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Mr Phillips: Thank you for being here. I was recently at the mill in Kenora, and two things struck me. One I guess I knew, but you've pointed it out here, and that is the trade balance. I was just looking at today's numbers, actually; the trade balance came out this morning. Among other things, they say "demand for newsprint has been on the rise, the strengthened economy boosting newspaper circulation. Rising demand should place upward pressure on newspaper costs," so you should be happy with that.

Actually, three things struck me. The second thing was that for many of our communities in Ontario this is essentially the cornerstone of their economy. It's not like other communities, where you may have four or five industries or 10 industries.

The third one was that at least the mill in Kenora was mentioning that they believe they have an unending supply of raw material, of pulp. That impressed me, because I've always kind of been worried that as we harvest the forest we'll get far enough away from the mill to make it uneconomical to bring it in. Is that the case with your industry, that most of our mills now have for the foreseeable future an adequate and competitive supply of —

Ms Rauter: It depends, and it depends very much — and this is one of our concerns — on the Lands for Life process. In the early 1980s, when the forest management agreements came into play, that was when the ministry started renewing the forest operations it had, as well as the backlog that existed at that time from government. Those plantations are coming along, some of them doing quite well and some of them needing a little help.

What we're finding is that if we practise sustainable forest management, we think yes, we have a sustainable supply and we think we can satisfy the needs of all users who want to come into the forest. One of the exercises we're having through these round table town hall discussions is that there are a lot of people who want single use of the forest and they want to withdraw large hectarage, acreage, of forest. They call it a blob program, and what they're looking at is withdrawing it from forestry, mining and hydro-electric power and using it for other uses. If that comes to be, it puts this industry in jeopardy.

We're trying to put forward programs whereby all the values of the forest and of the people can be met, but it has to be through integrated sustainable forest management practices. If that is the case, we think the industry can survive and we think all the other uses can be met. If we have these large withdrawals for single uses, then I would say many of those northern communities could be in jeopardy.

Mr Phillips: Is tourism one of the single uses you're talking about?

Ms Rauter: The remote tourist operators would like some of these areas withdrawn because it allows remote

tourism. Many of the other resource tourist operators, who depend on access, would have perhaps a different view.

Mr Phillips: Your comments on the Who Does What are important, by the way. I've looked at the list of communities that would have a tax decrease if we moved to a uniform mill rate. There was Toronto and Hamilton and the rest were virtually all communities where your industry is.

The Asian issue: Again this was one of the things I learned in Kenora, that not too many of your exports go to Asia, but there was a concern that it may impact on the price because western competitors whose market may not be as large now would move into your traditional markets. Do you have any advice for us on what impact the Asian situation may have on your industry here in Ontario?

The Chair: You'll have to be very brief, Mr Steuart.

Mr Steuart: You're exactly correct. Although Ontario producers of either lumber or newsprint and/or pulp aren't dependent at all on the Far East — we ship a little bit of Thunder Bay hardwood to Korea, or we did — the fact of the matter is that people who are dependent, like British Columbia and like the US south, are having a difficult time in those markets, both from the lumber and the pulp or newsprint point of view, and if they have a difficult time there they try to sell more in the United States or North America. We're experiencing that right now. Even though the fundamentals in North America are pretty good in terms of demand, it's having a dampening effect on pricing, for that exact reason: the Asian issue.

Mr Martin: Thank you for coming this morning and for making a wonderful case for the importance of the forest industry in Ontario, and indeed it is important. In my own community, we have at least three major enterprises that support the economy of our community. I think you raise a couple of issues here this morning, out of so many issues that confront you, that hopefully this government will take into consideration and address.

I remember that one of the first meetings I had when I got elected in 1990 was at St Marys Paper, with Dan Alexander at the time, and he was just beside himself. Ultimately, in the end he lost his business. What was affecting him negatively was the level of the dollar and the interest rates at the time. They were killing him and eventually did. We all of us have to be so very concerned and sensitive around what it is that will make your industry successful and what it is that will take away from it.

The contribution that the forest industry makes to the whole of the province and the economy of the whole of the province I think is irrefutable. You don't often get that sense, when you come down here and talk to people, about the need for us to have in return some consideration of our needs to maintain and sustain the communities that house the people who work in the industry. Certainly the point you make about the contribution we make and, in turn, the consideration we're asking this government to give us re some of the Who Does What exercise that's going on is absolutely critical if we're going to survive and continue to survive and if those who participate in this industry are going to continue to do well.

Are there any other specifics in that you would care to share with us this morning?

Ms Rauter: In terms of the Who Does What, I think at this point there is still the uncertainty. What we've tried to do is flag the potential problems in some of those northern areas. Many of our mills operate as the only major industry. If they have a residential community and you can only raise the residential costs so much and you've got a school that you have to be able to fund and you've got a hospital and such, the concern is that it all falls back on this one large company, and sometimes people feel that the company has deeper pockets so they can take the dollars out of the deeper pockets.

As you talked about St Marys being sold and restructured as an example, one of the things we have to be concerned about is that for these operations it takes large capital expenditures and you need to maintain those large capital expenditures, and if those capital expenditures go elsewhere or have to be spent elsewhere, you lose your competitiveness. We just have to make sure that all of the ducks are lined up properly to encourage the companies to spend to ensure that they stay operational, that they stay competitive, and to make sure that those small communities are accommodated.

Mr Steuart: I think one important point — I don't know if you got into it with the economist from the bank, but everybody has to realize that we have a 69-and-a-half-cent dollar now and even with that dollar we have a competitive problem. It worries a lot of people in the industry that if the dollar increased in value by 10%, we'd have a huge problem.

Mr Martin: The Lands for Life exercise versus the sustainable forestry act: How is that mixing or not mixing and what is it that we should be or could be doing as opposed to Lands for Life?

Ms Rauter: The environmental assessment hearings and the Crown Forest Sustainability Act told us how to manage a hectare of land. The Lands for Life process is going to tell us whether that hectare of land is going to be multiple use or whether it's going to be a park or whether it's going to be a heritage area. Many of the people, though, in giving presentations for Lands for Life, have had real trouble separating the two and have come back into the forest management question.

The Chair: I have to interrupt you there; I'm sorry. We are out of time. I thank you for your presentation and thank you for your time this morning.

Ms Rauter: Thank you for the opportunity. Should you have any additional questions or anything, you know where to reach us, and please do so.

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FAMILY SERVICE ONTARIO

The Chair: Our next presenter is Family Service Ontario, Dr Drouin. Welcome. Thank you for coming.

Dr Hugh Drouin: I'd like to introduce the gentlemen who came with me this morning. Stephen Goldstein is the president of our board. Paul Zarnke is the executive di-

rector of the Family Service Association of Metropolitan Toronto, which is our largest family service agency in the province.

We'd like to extend our sincere appreciation for the invitation to present our story before this committee. I'd like to begin by quoting from the finance minister when he presented to the committee last week. He said in his conclusion, "In particular, will I look forward to advice from the committee which will contribute to making Ontario the best place in North America in which to live, work and raise a family."

Raising a family is our business. The family in Ontario is our business; that's what we do. Family Service Ontario is a provincial association representing 48 family service agencies across the province. Family service agencies provide a variety of counselling services, dealing with problems such as couple relationships, teen-parent problems, money management, family violence, divorce mediation and a myriad of other issues. For more information, you can look at appendix A.

What is the cost to government of maintaining these services for the people of Ontario? The overall budget for the 48 agencies combined is approximately $50 million. The government pays roughly half of this amount, for a total of S25 million. To put this in perspective, the average hospital budget in Ontario would be roughly $50 million. For half the cost of one hospital, the government is providing services to 250,000 Ontario residents per year. Furthermore, we believe this investment is even stronger when we consider the preventive nature of the services we render. Without this service, government would pay far more in future costs, because the future costs would have to go to more expensive services such as medical, legal and correctional.

Some of the emerging trends in family needs are as follows. According to 1997 research done by Family Service Canada, an overwhelming majority of clients of family service agencies are now low-income or marginalized. The same has been experienced in the United States. The number of clients in this category has increased significantly in the last 10 years. This is due to a number of reasons: a widening gap between rich and poor in our society, and the reality that middle- and low-income families and those on family assistance cannot afford to pay the high costs of counselling fees in the private sector.

According to the Family Service Canada research entitled The Strength of Canadian Families, the household incomes of family service agency clients are well below the Canadian average for family incomes, the Canadian average being $55,247 in 1995. The average household income of low-income earners is between $20,000 and $29,000. A full third of the respondents indicated that they had received social assistance within the last six months, and strikingly, three quarters of those recipients were women.

Family agencies are currently engaging in a losing battle in attempting to meet the needs of this population group. Government cuts in 1995 took away $3.5 million with the elimination of the purchase-of-counselling program, which provided coverage for counselling for low-income families. These families, growing in numbers, have now no place to access counselling and therapy that would increase their chances of becoming more stable and productive. In all of this, the children are the ones who suffer the most if parents are not in an emotional state to give them adequate emotional support. That is the tragedy of this whole situation: The children are the ones who suffer.

The other group of clients severely affected by the cuts are the male batterers. Although women's programs remain, it is essential that their partners also receive therapy to prevent further recurrence of domestic violence. We know from years of professional experience and practice that the treatment of both the men and the women is crucial in breaking the cycle of violence. In the cuts, treatment services for male batterers were eliminated, and family service agencies lost $2.5 million of funding to serve this population group.

The above services are preventive in nature: They prevent further damage from being done to families; they keep families stronger and stop individuals from ending up in health care, mental health and correctional institutions, which I said earlier cost much more than our service.

Key recommendations:

(1) Family Service Ontario recommends that the $3.5 million in cuts made in 1995 for counselling low-income earners be restored. This is a very small reinvestment that would immediately benefit the lives of over 15,000 people in this province. This renewed investment will prevent much more expensive interventions in the future.

(2) We recommend that the $2.5 million in funding for male batterers be restored to ensure that both men and women receive the treatment they need when domestic violence occurs. Research has shown that the treatment of both men and women is essential to prevent future violence in the family. Peter Jaffe, a leading expert in family violence in Ontario, said recently that 60% of the kids who witness family violence end up with severe emotional difficulties. This is a real issue, and it's a real problem.

In conclusion, our vocation, our calling, whether we are politicians or health care or social service providers, is similar: We all want to make a difference. Together we can make a real difference in the lives of thousands of Ontario families. However, that depends on how much the Ontario government will contribute. Frederick Buechner defined "vocation" in this way: "Vocation is when a deep gladness in your heart meets a real need in the world." Please help us to meet the needs of families. Together we can make a difference in the family life of thousands of Ontarians.

The Chair: Thank you very much, sir. We'll start with the Liberal caucus. We have about six minutes per caucus.

Mr Phillips: I appreciate your presentation. It's timely, with the inquest that's going on right now. It's an amazing coincidence. I coach hockey, and the son of that man involved played on my team last year, having moved from Collingwood at the time. So it's human to me.

One of our challenges here is, if this were education, there are marks you look at, and the students come every day and you see them. If it were a hospital, you'd know how many beds are filled. If it were a municipal service, you'd see it. But this is all out there out of sight, out of at least measurable sight. It's not out of sight, and I don't mean that. Can you help humanize this for us and try to give us some idea of whether the problem is getting worse or better? One of the things we've talked of here in the committee is to try to provide some standards, some goals, some targets to measure ourselves against. Can you help at all in quantifying this for us? I hate to try to turn this into a numbers thing, but is there any way we can do that?

Dr Drouin: Yes, there are ways to do it. I'll let Paul answer part of that question, but we are doing two things at Family Service Ontario. We have an excellent agency accreditation program which an agency has to go through in terms of meeting standards. We also have an outcome evaluation program, which gets at measuring our success with some of these issues. Some of these issues are not easy. But the preliminary data we're receiving now certainly show that when both men and women are treated for family violence, there is progress in the family and many families are saved as a result. There's myriad research about the effectiveness of counselling. That can be quantified and it certainly can be presented. That's a good question.

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Mr Paul Zarnke: I think my interpretation of your question is you are looking for some quantitative measures to get some sense of the scope of the problem. I think there are lots of quantitative measures out there for a variety of problems. We know that one in five women is, has been or will be the victim of abuse, in most cases by a partner or someone in her own constellation. We have lots of information about children living in poverty and those numbers are going in the wrong direction. We have numbers about youth unemployment and the impact of all of that. I think the face is there. It's a matter of finding the will to do something about it and not to continue to make moves that exacerbate those problems.

Mr Stephen Goldstein: I'd just like to also mention the qualitative. I know it wasn't in your question, but I think many members here will have seen in their own experience that people they know qualitatively have been affected by these kinds of services. If you go to a United Way progress meeting, you'll hear people talk about the agencies and the work they've done and it saved them from disaster. I think it may be anecdotal but there's certainly a qualitative aspect to it as well.

Mr Phillips: As I said in my opening comments, it's timely and an amazing coincidence that you're here and this major inquest is going on and one of the issues they are trying to deal with is the very issue you're raising here with us.

Your recommendation 3, that Family Service Ontario be supported, you say, as the key agencies. Do you mean as the key agency or as the key agencies?

Dr Drouin: The key agencies in the province, because we really are the main agencies dealing with family. Because we've never been 100% dependent on government for funding, because we also have United Way and we've been entrepreneurial in the sense that we have a lot of EAP contracts with companies to provide counselling, we perhaps haven't had the profile with government in the past that I think we need to address the issues that I mentioned this morning.

Mr Phillips: What would that mean in real terms, being given the mandate? I'm just trying to understand what you would do differently from what you're doing currently and why that's important.

Dr Drouin: I think being invited to come here this morning is certainly a really good beginning, when there are committees such as this or other types of committees and various ministries, that we would be put on the list and be asked for our input. When you consider the 48 agencies across the province, all the expertise that's there with the volunteer board members and the staff, we have quite a wealth of expertise to offer.

Mr Goldstein: We have innovative ways to present programs and we even went cost-cutting and tried to be as innovative as possible. I think there's a wealth of experience among these 48 agencies.

Mr Phillips: What would be the reason why you wouldn't be given that mandate? Have you ever said to the government, "There's a role we could play"? Is there a reason you've been given why you wouldn't be given that mandate?

Dr Drouin: I think it's a number of factors. One, we haven't been 100% dependent on government for funding, so they probably haven't seen a need to give us a stronger voice. The other thing is I think our profile needs to be higher with government so that they know we're out there and also know the kinds of work we do.

Mr Martin: Thank you for coming this morning. It is indeed important that you come and present at this table. You may not know, but I have because I've been here a bit and Mr Phillips may too, that when the banks and the economists come in, the folks across the way perk up and they're very interested and listen real well and even the press show up from time to time for them. But when the people who serve the human dimension come, there's chit-chat and a lack of interest, it seems, and because of that probably at the end of the day a lack of understanding of what you're dealing with out there in the community.

We have economists come in, the C.D. Howe, who tell us, "We don't have any qualitative ways of determining the impact of some of the decisions." This morning we had the Bank of Nova Scotia, I think it was, say to me, "Yes, the policies of this government are going to cause some pain for some folks in the short term but eventually they'll all be better because of what's going on."

I just want to focus on a couple of the policies that you probably have had to deal with very directly and ask you, just how deep are they? The sense you have is, yes, there are some problems but they're not life-threatening, to the

system, I guess, because they certainly are to individuals and to families.

One of the policies this government feels it needs to have to improve the economy is to take 22.6% of the income of the lowest and most vulnerable and most marginalized of our citizens away from them. Somehow this is going to contribute to a better economy. Then, not long after that, they take away the services that these people need, which you've outlined here, two of them: $3.5 million in the money that you used to counsel poor people and $2.5 million that you used to deal with the issue of violence in families, where usually there's no income. Money is usually the root of a lot of the violence that happens. Yet this government would lead us to believe that this is good for us, this is good for people, this is good for the economy and eventually we'll all benefit.

I want to know from you just what is the impact. You've talked about having a qualitative or quantitative ability to measure that. What is the impact of taking that much money out of the pockets of those who are already struggling and then taking away the counselling that they need to try and cope with that?

Mr Zarnke: The impact we're seeing in our agency here in Toronto is a growing demand for service, particularly in our woman abuse services and our services for men who are batterers. We're seeing people who are in more difficult, more complex kinds of circumstances and who need greater assistance. So we're having to do more intense work with them to try and help them get their lives back on track.

I think with respect to the woman abuse issue, that is an issue of safety. In fact, you had made the comment about being life-threatening. It is an issue of life and death for many women who are living in circumstances where their life is constantly in danger. So the erosion of any of the supports, either for the women in those circumstances or for the men who are voluntarily at an early stage trying to reach out to get some help to change their behaviour, is ill-founded.

Mr Martin: Maybe I can follow up and ask you the question that I didn't get to ask the bankers this morning because my time was up. Actually, some of it was my own fault. I didn't get here on time because I was doing other things. I really did want to be here for the bankers. I suppose it was a question of how much is enough — the casualties of this program. They freely admitted that there were casualties, that the system is fraying at the edges at the moment and people are losing out; even in their realm, record-high small business bankruptcies and the impact that has on families and people.

Is there any way of measuring just exactly how much damage is being done with this program? Would you be able to venture a guess as to where it all becomes counterproductive, where enough is enough? I wanted to ask the banks that. When is enough enough in terms of the pain that ordinary citizens have to absorb and endure before a government and a system begins to say we have a problem here that is obviously out of control, that is no longer fraying at the edges but is now beginning to eat away at the core of the system?

Mr Zarnke: It seems to me that it depends on how you define ordinary citizens. I think we've kind of shifted the standard of what we define as ordinary citizens and are concerned about slightly to the right. There are a growing number of people in the community who are having significant reductions in entitlements to access to services. I know in my own agency this access by persons on low income to subsidized counselling was available to people who are on GWA, FBA and on low-wage income and who had to meet a qualifying means test. The province made available to family service agencies about 50-cent dollars and the rest was provided by the United Way. The elimination of that small pot of funding meant that about 1,000 people a year, those people on the lowest of incomes in our community, were no longer able to access counselling services which people who did have means could go out and purchase in the private market.

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These are people whose relationships are deteriorating and who are reaching out to try and get help, to try and keep their families together. We all know what happens when families split up. Often you've got two households now both in poverty. They are people who are struggling with issues of relationships, trying to manage their children and the behaviour of their children and cope in terms of relationships at school, again issues of violence within the family, and the list goes on. These services have been greatly diminished in terms of their availability in our communities by the erosion of that one small amount of money.

The Chair: Thank you, sir. I'm sorry I have to interrupt you there and move to the government caucus.

Mr Rollins: Thanks for your presentation. We had some people in the other day and there was a statistic that was astounding to me that they laid on us — I think it was in with some of their information; I don't know whether they spoke of it or not — that 36% of people who come from single-parent family backgrounds have problems in school, with the law or with society in general, while only 8% of those people come from two-parent families.

It puts a lot of onus on people who try to direct those to make sure there are two-parent families. I'm not opposed to single-parent families; don't get me wrong. But when we see that kind of a statistic about people who are raised in them, I think that has to put up the lightning rod to say, "How do we make sure that more two-parent families exist?" Because that child who gets out of focus, whether it's at school and he doesn't learn or whether he gets in trouble with the law or whether he never graduates from high school, he doesn't get further advanced education, is a continual drain on our society for the rest of his life. I'm not trying to say that is the only thing that happens, but if that's a fact — do you people feel that's the kind of ratio it really happens at?

Dr Drouin: I'm not sure exactly of the ratios, but they would be similar, I think. When you're saying yes, keep the family intact, that's certainly our objective, to keep the

family intact, because that's the best scenario. No one wants a family to break up. However, when it does happen — and you're saying 34% of single-parent families have children with problems — if we can get in there early enough and provide an intervention to these families, we can minimize these problems.

You know and I know a lot of people who have come from single-parent families who haven't done too badly. I was raised by a mother alone. My mother was on mother's allowance. She had good support. There were three kids in the family, and we're all doing fine. We're a little crazy sometimes, but generally we're doing fine.

Mr Rollins: We're all a little crazy at times.

Dr Drouin: But it's because we had help at the right time.

Mr Goldstein: I'd just like to make a point that the more intervention we can do with the family in crisis and the better the family that exists, the better the role model for the offspring of the family, so that at least the next generation has a better chance.

Mr Rollins: That's the concern I had.

Mr Arnott: Thank you very much for your presentation and for the good work you're doing. I've learned a great deal about your organization today and I appreciate the time you've taken to come in.

In your recommendations, you're asking for reinstatement of some of the cuts that have taken place that have affected your organization. I'm looking at the first recommendation, and you say the government cut $3.5 million in 1995. Was that part of the 5% reduction that the government passed?

Dr Drouin: No, it was more than that. It was elimination of the program, cut completely.

Mr Arnott: Have you been able to make up for that reduction through —

Dr Drouin: No, we haven't, so people are knocking on our doors and we have to say we're sorry. That's tough, let me tell you.

Mr Arnott: So it has a negative impact on —

Dr Drouin: Absolutely. The people who can afford to pay can come to our agency if they want to or they can go to private practitioners, and they're fine. But that section of the population that we can't service — that has really been tough.

Mr Zarnke: I'd also say this was a nice partnership between the voluntary sector, the United Way and the government. The government dollars really were 50-cent dollars. It was a nice working together. We're very sorry to lose that.

The Chair: Just let me take a liberty here and address you, Mr Goldstein. You made a very good point. The bankers were here earlier this morning and yesterday. Everybody, before they came here, has dealt with a bank. Very few people know until they get here and we start to learn — but let me tell you, as a judge for 11 years on a family court bench and 15 years practising law in a major city doing matrimonial law, if they knew what you people contribute, it would not have happened. That is your problem: Nobody knows.

Thank you very much for your attendance and thank you for your time.

ONTARIO HOME BUILDERS' ASSOCIATION

The Chair: The next presenter this morning is the Ontario Home Builders' Association, Thank you very much for your attendance this morning. Welcome, gentlemen. We have 30 minutes. Please proceed.

Mr Murray Koebel: I'd like to thank you for inviting us here to address the committee. My name is Murray Koebel. I'm the first vice-president of the Ontario Home Builders' Association and I'm a home builder in the Toronto area. Mr Wayne Dempsey is with us here this morning, and our president, Mr Al McLean, is unable to attend today because of an ongoing illness, unfortunately.

For those of you who are not familiar with Ontario Home Builders' Association, we are a volunteer association of companies in the home building industry. We have approximately 3,200 member companies in 34 locals around the province.

You have identified that we have half an hour. Our prepared remarks are relatively brief, so we should have reasonable time for questions.

This morning we would like to cover five topics. I'm going to give you a bit of a report card on two areas. One is how our members rate the government's fiscal management, and the second is the state of the housing industry. Then I will turn things over to Wayne. He will touch briefly on two areas of concern that could affect the performance of the home building industry. These are municipal user fees and licensing and economic disincentives for private investment in rental housing. Finally, Wayne will mention some specific measures we would like to see in the budget.

Let me begin with how our members rate the government. Based on a recent survey of members, in general the industry is very happy with the government's fiscal strategy. Three quarters say they "strongly support" deficit reduction and two thirds "strongly support" spending cuts. In both cases, the balance of members support these actions. Support for income tax cuts is a bit softer. But even here, 88% either support or strongly support this measure. Finally, looking ahead to when the budget is balanced, 61% think the fiscal priority should be debt reduction and one third say tax cuts.

Now I'd like to turn to the state of the housing market. Let me quote from our written submission to the minister, which has been handed out to you.

"It was not hard finding good things to say about the housing market in 1997.

"Total starts in Ontario were up 26% from 1996," to 54,072 starts, "placing them at the highest level since 1992.

"The recovery was spread over most of the larger urban centres in Ontario. Only northern cities and Windsor showed declines.

"Most companies shared in the recovery. Two thirds of OHBA's member companies reported increased sales in 1997.

"A shift in the market towards larger, single-family homes indicated the return of the move-up buyer."

Perhaps the most impressive thing about 1997 is that it was the first time we saw two consecutive years of increasing starts in some time. We expect this trend to continue this year, although at a somewhat slower pace. For 1998 the Ontario Home Builders' Association is predicting 61,000 starts, or an increase of 13%. There are, however, a couple of concerns.

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Although 1997 was an exceptional year, it was no different from previous ones in at least one important respect. We still did not build all the housing that is required. Our estimate is that there is now pent-up demand for 125,000 units in Ontario. A lot, but by no means all, of this pent-up demand is for lower-end product, including rental housing. Last year, less than 780 rental units were built in the whole of Ontario. Wayne is going to have more to say about this situation. For the moment, the point I am trying to make is simply that there are grounds for both optimism and concern in the current housing market.

Low interest rates, the land transfer tax rebate, relaxing standards for basement insulation and streamlining the approvals process have all helped improve housing affordability. These have placed us in a better position to deliver the sort of product many families need and can afford. But we are not out of the woods. The economics still do not enable us to meet the needs of a great many families.

As one final word of caution, there are going to be more pressures working in 1998 to increase our costs. Our industry is currently negotiating the collective agreements for unionized trades, especially in the Toronto area. Depending on what happens over the next couple of months, we will probably have more expensive labour, or perhaps no labour at all, in the spring.

We are expecting a new generation of development charge bylaws to be passed under the rewritten Development Charges Act. The new legislation is improved in a lot of important ways but it will not result in lower development charges.

Finally, we are expecting to see more and more municipalities jumping on the bandwagon of increasing existing user fees and creating new ones.

We simply cannot absorb cost increases for labour, development charges or user fees, and as the evidence of pent-up demand suggests, we can't pass them on without forcing more families out of the housing market. In a nutshell, we have a recovery that has taken hold in a lot of the market, but there are still some key areas where we are underperforming. A threat of cost increases is looming on the horizon that could weaken the market in 1998.

I will turn things over to Wayne to talk about some of the trends that are affecting our industry and what we would like to see in the budget.

Mr Wayne Dempsey: Good morning. To begin with, I will stay with the issue of user fees and municipal licensing. Murray mentioned that we expect to see municipalities jumping on the user fee bandwagon. This is not all bad, so let me be clear about what we see as the issue here. The industry supports user fees, but this support has two important qualifications: First, the fee must not exceed the cost of the service, and second, the level of service must be reasonable and it must provide true value. What we have been seeing are instances where fees are increased without justification. We are also seeing fees applied to things that have no true value for the industry or the public.

A clear example of this is municipal business licences. Provincial legislation already tells us what can be built, where it can be built, how it can be built and who can build it. What is gained by having municipalities license the trades that will be working on a project?

The new Municipal Act has been released for public discussion. As part of the consultation, we hope to see the issue of municipal licensing subjected to the Red Tape Commission's regulatory impact and competitiveness test. We submit that licensing fails this test on at least two counts. In the case of user fees, we want to see rigorous cost accounting and no possibility that fees will exceed the cost of providing the service.

Now I will turn to our second area of concern, which is the rental sector. Most of you are probably familiar with the recent history of rental housing in Ontario. If you plotted annual rental starts for the past 25 years on a graph, you would see three patterns. One is a substantial and permanent drop after rent controls were introduced in the mid-1970s. The second is another and proportionately sharper drop after rent controls were tightened in the early 1990S. The third is a marked shift to publicly financed production, beginning in 1989.

There are basically three broad categories of barriers to private investment. These are an imbalance favouring the tenant in regulations governing the management of existing units; a gap between the economic rent needed to receive a reasonable return on investment and the market rent available; and high vacancy rates, which signal low demand.

The government has made substantial progress on the first category of barriers involving the imbalance favouring tenants. It has also devised a detailed agenda to narrow the gap between economic and market rents, but little progress has been made.

Our written submission to the minister describes the measures that were recommended to the government and the changes that have been implemented. The bottom line in that discussion is this: In 1995 the government identified an average gap of $3,000 per unit per year between economic and market rents. If you leave interest rates constant, that gap is still over $2,500. I should add, however, that the jury is still out on some of the measures designed to eliminate this gap.

Municipalities might lower development charges and they might reduce the inequity in property taxes on rental

and ownership units. The legislation dealing with both of these issues is as yet untested.

We are recommending that the effect of these changes be closely monitored to determine if they are having the desired results. If they are not working as desired, they should be modified as quickly as possible. As long as this gap persists, private investment will not happen. Quite simply, there are more profitable places to make investments.

We also recommend that the government ensure that no additional costs be imposed on residential construction, and this obviously takes us back to the earlier point about user fees and municipal licensing.

Turning now to the provincial budget, we have two recommendations.

First, the industry strongly supports the government's intention of eliminating the deficit. We have seen a fundamental change in the attitudes of all governments at all levels regarding fiscal management. This change has resulted in lower interest rates, greater housing affordability and a generally improved economic outlook for all Canadians. But the job is not done. We cannot become complacent. All decisions that impact on the budget must respect the need to eliminate the deficit and then begin reducing our public debt.

The second recommendation is made in light of the continuing struggle to ensure an adequate supply of affordable housing in Ontario. For two years, first-time buyers of newly built houses have received a rebate on the land transfer tax. This is obviously a boost for new construction. But just as important, it is a boost for rental supply, since many first-time home buyers vacate units they have been renting.

Our second recommendation, therefore, is that the land transfer tax rebate for first-time buyers of newly built houses be indefinitely extended.

Thank you for your attention. We will try to answer any questions you might have.

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The Chair: Thank you, gentlemen. We have approximately five and a half minutes per caucus. We'll start with the NDP caucus.

Mr Gilles Pouliot (Lake Nipigon): Good morning, gentlemen. I appreciated your presentation and wish to echo that it was a good year in 1997, and the outlook for 1998, although not as prominent, will be positive as well.

In your report card, you've mentioned that you appreciate that this government is going through an exercise of spending cuts. The reality is that this government, this fiscal year, will spend more money than any other government in the history of Ontario in any one fiscal year. They've cut, but they're still spending more. That's what the books say. I'm not the one saying this; the Ministry of Finance says that.

In terms of the development charges — and that would be welcome news for you; it makes you more competitive — I'm not imputing motive, but there is a perception that not 100% of the savings will be passed along from the builders to the consumers. I'm seeking assurance that all or the majority of the savings would be passed along to the consumer. What you save should be reflected in the price of housing.

Mr Koebel: Basically, the way we look at it is that a housing project is costed based on what has to go into each dwelling, and there's no reason not to pass on the savings. I think builders are in a very competitive environment, and as far as we're concerned, those savings do get passed on.

Mr Pouliot: That's welcome news, and I thank you.

The cost of labour: You have indicated that you would be hard-pressed to meet any increase in the cost of labour. You are guided by collective agreement, a binding agreement between two parties, employee and employer, through the bargaining process. Do you have any suggestion to the government?

Mr Koebel: Obviously, the two parties to the agreement need to spend their time negotiating it, which is the normal process, and see if they can come to terms. If they can come to terms, then we carry forward.

Our main concern is that wage increases have been minimized over the last term of the collective agreement and increases are anticipated. That's going to impact negatively on the number of people who can afford to purchase homes. That's what the problem is.

Advice to the government is really to carry on with the agenda of continuing to streamline, continuing to monitor unnecessary cost increases and those sorts of things, as we have described in our brief, so we can have the best affordability for the most people.

Mr Pouliot: Thank you kindly. Can you tell me in a broadly summarized form, do you see changes in the demographics, the baby-boomers and so on? What does it do to your industry in terms of adjustment, meeting the new needs or relatively new needs of the marketplace?

Mr Koebel: That's a very complex question, and we struggle with that one within our industry all the time. We obviously are dealing with an aging baby-boom group. Every year we're all getting a little bit older. But then there are a lot of other factors. There is the formation of households, which has to do with lots of things. It has to do with people's relationships with one another and all sorts of things.

The best gauge we can make of the marketplace is simply looking at what is being built, and we have noticed that mainly smaller, lower-end product has been the mainstay for the last several years that our industry has been producing.

Mr Pouliot: Since June 8, 1995, I have gotten a lot older. I readily acknowledge this.

Some 3.8 million units are in the process of being assessed and reassessed. It's anticipated that 600,000 appeals will be launched. Anxiety sometimes leads to fear or certainly to some hesitation. You will be one happy lot when this is all behind us, when people can look to the future with certainty and therefore more confidence. You can't say this, but they have created one heck of a mess. The revolution is going on on many fronts and there is a lot of anxiety. In my neck of the woods, my special part of

Ontario, there are a lot of people who would like to know what the taxes will be for 1998, never mind 1999. They still don't know, and they have to survive on interim tax levies. Some of them want to buy a house. They don't know, because the government has messed up. That's their feeling.

The Chair: I'm going to have to interrupt and move on to the next caucus, the government party.

Mr Rollins: You're predicting a modest growth for this year. Do you predict that the growth areas in the province at present, Barrie, Hamilton and those areas, are still going to be the hubs of the growth? I come from Belleville, and I see we had a 40-unit increase in growth; percentagewise, yes, it's high, because we don't build many houses there, or we haven't in the past. Do you see that the outlying areas are going to start to grow faster or do you think it's still going to be the metropolitan areas?

Mr Koebel: The result of our studies seems to be that the large cities are experiencing a large portion of the growth. Having said that, it's fairly broad-based and I think it happens a little bit everywhere, but the numbers get fairly small once you get into some of the rural areas. I think the truth is it really does happen in the larger cities.

Mr Rollins: And you predict it will stay pretty much the same this year coming up?

Mr Koebel: I think that's our projection, yes.

Mr Arnott: Thank you very much for your presentation. You have given the government fairly high marks for its economic policies and we appreciate your support. We're trying to do what we can to encourage your industry in a positive way to go out and create the jobs we need. We're not opposed to your making a profit either, because we tax on it and that money comes back to help us fund our programs.

We have undertaken changes to the Municipal Act, as you have identified in your brief, and what you have said on user fees is something I think the government should be supportive of. How do we ensure that municipalities, in turn, make sure their user fees reflect the true cost of the service and represent value to those who are paying user fees? How do we ensure that happens?

Mr Koebel: I think part of it has to do with monitoring. The province always has the opportunity to write legislation where it wishes, but if you could have the cooperation of the municipalities, I suppose that would be one direction.

The building permit fee in particular is what we're talking about, and the licensing, which is the other item Mr Dempsey mentioned, but the building permit fee to be specific. We have had municipalities in various places in Ontario attempt to have 30% or 35% increases, and we don't really understand the rationale for that to happen in any given year. I don't think much changed from prior years. In fact, when the industry gets busier, they should actually be doing better with the revenues that are generated. We're just concerned that these things don't become profit centres or income revenue generators any more than in an absolutely minimal sort of way to cover the cost of the service. That's the main premise. We view these things as a service, not as revenue generators, and they should be paid for at cost or very near to cost.

Mr Arnott: You have also recommended that the land transfer tax rebate for first-time home buyers be made permanent. That has obviously been of benefit to many young people in Ontario over the last couple of years and obviously been of benefit to your industry.

Mr Koebel: Yes. That's been a good program, and it was very helpful at a time when the industry was going through a very low building period in the last couple of years. We think it should be made permanent because there is still much benefit that comes out of it. I believe the number here is that 15,000 people applied for the rebate last year. Basically, almost by definition, many of the people who buy their first home are very often moving out of a rental accommodation unit. Helping to encourage them helps to free up rental units within the marketplace, which helps the supply of rental for those in the needy sector as well. We think that's been of benefit as well.

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Mr Arnott: Do you know what the savings would be to a young couple buying a house through this program? Probably about $1,000?

Mr Koebel: It's $1,200 to $1,300 that we've been able to determine was the average amount. The formula would actually give more to some people, but it's based on their incomes. That's the number, $1,200 to $1,300 per first-time home buyer.

Mr Arnott: Thanks again for your advice.

Mr Phillips: Thank you for the presentation from a huge, important industry. I found this document helpful, the submission to the Minister of Finance. It's got a little more detail in it.

I was mildly interested that on page 29, Conservative support among your members has dropped from 90% down to 89%. It must be a cause of some concern for the Conservatives. But the Liberals still have 9%; I appreciate that. You're shut out, Gilles. We'll keep working on it. I'll look for next year's result and see if we can pick up some support.

I was interested in your comment on page 21 that we shouldn't look for any significant amount of activity in the rental sector. Is that the perception of your industry, that there will not be much rental accommodation built?

Mr Koebel: I venture to say that's correct. In fact, if you would flip to page 10 of that report, it lists a chart of the various savings that were anticipated from the various moves the government initially undertook. Some of those have come into play so far and some have not. There's still a gap that doesn't allow the economics to play in favour of someone building these buildings and actually making a minimal return on investment. The investments are substantial, as I'm sure you're aware.

Basically, that's correct. I think 700 or 800 rental units were built in the entire province last year, and that's really not a good thing. There should be much more rental housing being built. We need to get the economics to the point where that can happen in the private sector.

Mr Phillips: I found the chart on page 4 helpful as well, that in 1988 and 1989 there were around 80,000

units a year being built; it dropped off and I gather will go back up. This is just urban. I guess in total there were 105,000 units or something like that, about 100,000 units?

Mr Koebel: That sounds about right.

Mr Phillips: I found your estimate on page 8 helpful. It's the industry's opinion that the need per year is 70,000 housing units in Ontario to meet population growth, family growth, things like that?

Mr Koebel: Yes.

Mr Phillips: Is it that once we get to 70,000 we've at least met the annual need? I guess you're saying that in your opinion there's a pent-up demand of 125,000. Where are those people right now, would you think? Are they living with parents?

Mr Koebel: We believe there is a variety of situations, but some are definitely doing that. People are doubled up more than they perhaps would like to be.

To return to your point about the 70,000, we're hoping to approach 61,000 this year, which is coming up to that level of demand. But as you indicated, the pent-up is all the many years we've been unable to come up to this kind of number. It's very hard for us to say. There were basement apartment rentals and all sorts of other things in the last years that we were aware of, and it would be better if those people had a different type of accommodation to live in.

Mr Phillips: What is your expectation of how the property tax issue will be handled with the province setting the uniform mill rate on residential education? Is it your expectation that those savings will be passed on to the tenants?

Mr Koebel: I believe it will be. With the rent control regulations coming into play shortly, a bit of a market rent situation may occur, and we think landlords will pass that on. It may take a little bit of implementation time as people either stay in their unit or move, but we're anticipating that it would be passed on.

In particular, the main reason we are in favour of this is to help stimulate the new construction element of new rental accommodation, which is the missing element in the industry, and for product choice in the public.

Mr Phillips: Although right now your industry is saying that won't be enough to really get things going.

Mr Koebel: It's one on a list of things. The property tax imbalance — to make clear what that is, a lot of rental units were being charged double and triple the property tax rates that were predominant in the ownership market. We view that as an imbalance, so the government's cutting back on those and reassessment of the property taxes from especially the education component will help to lower that number.

It's very hard for us to speak on behalf of every landlord. We're really the new home industry.

Mr Phillips: Aren't they required through legislation to pass it on?

Mr Koebel: I'm not entirely clear on that. I could find out.

The Chair: That concludes the time we have. I thank you for your presentation and your time this morning.

We'll recess now until 1:30.

The committee recessed from 1157 to 1332.

ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

The Chair: The first presenter this afternoon will be the Ontario Public School Boards' Association, Ms Peterson and Ms Sandals. Ladies, welcome. Thank you very much for attending.

Ms Lynn Peterson: My name is Lynn Peterson. I'm the president of the Ontario Public School Boards' Association. Joining me is Liz Sandals, our executive vice-president.

I will speak for approximately 10 minutes and then we would be more than happy to answer any questions you may have. You all have a copy of our submission and I hope you will have the opportunity to read it. In the meantime, I will draw your attention to the table of recommendations listed at the front of the document.

The Ontario Public School Boards' Association represents the interests of more than 1.5 million elementary and secondary students and more than half a million adult learners from all regions of the province. The association's mission is to promote and enhance public education for the benefit of all citizens of this province. The association believes that the role of public education is to provide every individual with equal access to educational opportunities regardless of gender, race, religion, ethnicity, ability and place of residence, in English or in French.

Our association is committed to improving education quality, ensuring equity in access, promoting cost-effective and affordable programs and improving accountability. In order to be successful, the government must ensure that we have sufficient funding to provide well-trained teachers, appropriate resources, clean, safe buildings, and we need local access to meet local needs.

For more than a decade OPSBA has been has submitting recommendations to the province that would allow school boards greater flexibility in providing services in a more cost-effective manner. The association is very concerned that insufficient funding will result in further reductions to classroom programs and reduce support for students. Without sufficient funding, equity in education will not exist.

We therefore recommend that we need a provincial funding model based on accurate and comprehensive costings of programs and services based on the diverse needs of local communities and sensitive to the students' needs in all parts of Ontario. We also need access to the local tax base to provide for local needs and we need to be able to improve school board flexibility and freedom to implement new ways to deliver services and to facilitate local innovation.

Public school boards do their best to minimize the impact on students in the classroom. Rather than eliminate programs, many boards have restructured services. Since 1995, school boards have reduced operating expenditures, primarily in central administration, capital, school busing

and adult education. By 1997, only 3.9% of education spending was for governance and board administration.

In December, the Minister of Education and Training announced funding for the January 1 to August 31, 1998, transition period. Although OPSBA's participation in discussions about stub-year funding did result in an increase over and above that originally planned by the government, the association is still concerned that the long-range funding model will not meet the diverse educational needs of the learners in Ontario's public schools.

The focus of recent work continues to be the allocation of reductions from the funding base, using a top-down approach with little or no current expenditure analysis. This approach concerns us, as it will not achieve a desired level of equity among the boards.

A funding model comprised of grants based on provincial averages or medians will not reflect a realistic base cost. In fact, the top-down approach violates the principles of the foundation grant and distorts the achievement of equity.

OPSBA continues to offer its assistance to the government to formulate a brand-new approach to provincial education funding. Modifying the old model will not meet the diverse needs of every student in every community.

OPSBA therefore recommends that the provincial government develop a student-based funding model from the bottom up, using sound empirical data built on a statement of fundamental principles and objectives which define quality education and priorities, and also that the new funding model, adjusted for specific issues such as the impact of enrolment changes, changes in teachers' salaries, savings through changes in governance, reduction in secondary prep time and increases in debt servicing costs be phased in.

To this end, we also recommend the establishment of a special task force and work groups effective until the spring of 1999. The special task force would complete the development of policy statements setting out the principles and objectives defining quality education and priorities. The work groups will develop the empirical data and supporting material which will clearly define the education system envisioned for the future in areas such as special education, learning materials, enhanced technology to meet classroom needs and adequate per pupil facilities.

To ensure compliance with the funding model by the end of the phase-in, a critical path and costing model to take the system from the present to the future must also be developed.

Over the past several years, school boards' efforts to reduce were focused entirely outside the classroom until there was no other place to go. Continued reductions in provincial support for education forced program cuts and reduced support for students. Some boards found it necessary to eliminate junior kindergarten, cancel or restructure adult education and day school programs, and eliminate such things as instrumental music, noon-hour supervision, gifted enrichment programs, alternative education and elementary libraries, grades 7 and 8 technology, reduce extracurricular activities and outdoor education, and downsize special education support services using fewer or other types of personnel.

As well, staff positions such as teachers, teaching assistants, special ed assistants and English-as-a-second-language teachers were dramatically reduced. School board amalgamations have further reduced support and administrative staff. The system is stripped to the bone.

We therefore recommend that there be no further cuts to public education and that consistent with the recommendation of the EIC, any savings realized through the restructuring of school boards be reinvested in the education system.

I'd like to talk to you about junior kindergarten. There is no doubt that high-quality early childhood education is beneficial for all young children, especially for those from disadvantaged backgrounds. School boards must be able to maintain junior kindergarten programs.

We therefore recommend that sufficient funding for junior kindergarten must be included in the funding model.

The Ontario Public School Boards' Association strongly emphasizes that now is the opportunity to be more creative in improving public services for children and youth in our communities. It is time to integrate and coordinate all children's services.

Public school boards have been struggling for years to find effective and efficient ways to integrate education, health and social services for children. The province must take leadership by working with all its partners to develop regulations, policies and practices for an integrated approach to children's services. This is even more critical now that local boards no longer have the ability to supplement children's services in schools through the property tax.

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We therefore recommend that the provincial government work with its partners to develop policies and practices which recognize the long-term financial and social benefits of integrating children's educational, health and social services, and that the provincial government provide province-wide technological infrastructures to allow school boards and their communities to find creative and effective ways to coordinate and integrate children's services.

School boards are required by law to provide programs and services for identified exceptional students. The delivery of special education programs and services varies across the province, depending on the type and number of exceptional students. Mental health professionals agree that integrating high-risk children in local schools is the best educational option for the child, and parents expect local schools to be equipped and staffed to deal with each and every child. Public school boards, serving approximately 75% of exceptional students enrolled in Ontario schools, are concerned that the new funding model and school board amalgamations will result in understaffed, underfunded, or even cancelled special education programs and services.

We therefore recommend that both the special education per pupil and intensive support amount of the recom-

mended special education grant be sufficient to reflect actual costs and programming needs; that the funding model must recognize the special needs of all students in treatment facilities or institutions; that programs currently funded under section 27 of the general legislative grants continue to be identified and funded sufficiently; that the special education grants must recognize the additional costs associated with the transportation of special needs children; that the special education classes not be included when boards are calculating their average class size. This will result in a more equitable class size calculation, ensuring that boards with a higher proportion of special education students do not have higher average class sizes.

The province has repeatedly stated that there are no second-class students in Ontario. If the province is committed to such statements, it must not decrease the current level of funding for special education.

There are other issues around the financing of education. One of them certainly is taxation. Bill 160 removes local powers of taxation and provides for the Minister of Finance to establish tax rates. School boards are now expected to make appropriate local fiscal decisions while being constrained by fiscal decisions made at the provincial level. This loss of local control results in an education system that cannot respond to local needs.

Independent legal advice from several sources confirmed that the removal of education from the residential property tax is probably unconstitutional. The association is now proceeding with a legal challenge of Bill 160 to protect the best interests of all students in Ontario and the public education system.

We also need to talk to you about transition costs. We are very concerned about the extraordinary costs associated with the amalgamation of school boards. These issues are laid out in detail in our report on pages 15 and 16. Initially, it was estimated that the transition associated with staffing, working conditions and programs and services may add another $300 million to $500 million to school board expenditures.

We recommend that the transition costs associated with the amalgamation of school boards must be fully funded by the provincial government and that this funding be in addition to revenues provided by the new funding model.

Early retirement incentives: As a result of education restructuring and transition, early retirement opportunities for employees and employers may arise. We therefore recommend that the government fund early retirement incentive plans.

In terms of capital, the Ontario Public School Boards' Association is very concerned that the pupil accommodation grant will be calculated on the basis of current, and insufficient, provincial expenditure for capital rather than the documented need for new pupil places. The class sizes legislated in Bill 160 create a need for more classrooms. The pupil accommodation grant must take into consideration day care space and adult education programs.

In terms of transportation, we suggest that the transportation grant must be separate from the foundation grant and based on a defined level of service. The provincial government must define best practices in transportation policy and then provide sufficient funding to meet the policy requirements. Any further reduction in transportation funding could affect the safety of our students.

Pay equity: With the creation of new district school boards on January 1, 1998, the Pay Equity Act again becomes a very critical issue, especially when the new district school board is one of merging boards. Bill 136 requires amalgamated boards to redo their pay equity plans, generating a higher salary rate for many employees. OPSBA submits that the government needs to consider increased funding for pay equity costs in the forthcoming funding model. Therefore, we recommend the provincial government allot an appropriate amount of money for the anticipated pay equity analysis and increased salary costs in the funding formula or through a transition fund.

As we manage these reforms, we would like to talk to you about appropriate regulations. The Ontario Public School Boards' Association repeats its request for a review of all provincial legislation affecting boards, such as school bus safety, health and safety regulations, fire and building codes, and environmental and employment regulations. The association agrees strongly with the recommendations of the Red Tape Review Commission to "guard against unnecessary regulation."

We therefore recommend that the provincial government act on the recommendations of the Red Tape Review Commission to "create ways to remove or change any inappropriate regulatory measures" impacting on school board operations in order to streamline administration and facilitate cost efficiencies.

In terms of cooperation, school boards have already established cooperatives for purchasing and supplies, human resources, payroll, accounting and transportation. Cooperatives can provide increased savings for cost-sharing opportunities for school boards and other community and service partners. The government must provide the incentive and support for extending cooperatives among school boards and other public sectors.

I would like to close briefly with two final comments. I believe that with our many challenges come many opportunities, and I want to reiterate OPSBA's willingness to assist the government directly in two ways.

The first is in the coordination and integration of children's services. There is no better time to bring everyone together to work jointly in meeting the needs of Ontario's children. Our association will continue to work actively towards this goal in the coming months. We would be more than pleased to work with the government on this initiative. Second, please let me again offer any support or assistance we can provide to the government in the formulation of a funding model. We have many people with expertise who are simply a phone call away and have already pledged their help.

While we recognize the clock is ticking in terms of completing this model, our association believes, and I'm sure the government would agree, that getting it right is better than just getting it out. That concludes my remarks.

Thank you for your attention, and we'd be more than happy to answer your questions.

The Chair: Thank you very much. We'll start with the government caucus.

Mr Rollins: Thank you for your presentation. There are a couple of things, going through your brief and listening to it. I thought the cash register was ticking and it was just going to be a need for more and more money put into it. I listened to, and I see some results: The York separate board, in the grade 3 testing, did extremely well as far as Ontario is concerned and had a cost per student of, I believe, $4,200. I believe that was their cost. That relates to a much lower cost as far as per student cost is concerned, with the net result being that they still achieved a very high result. I'll give you a chance to answer that in a second.

The other question: You said that Bill 160 creates a need for more classrooms. Bill 160 said we had the same class size exactly as last year. I think it was within a point of where it has been for the last year or so. That's where the recommendations were. It's where they were, the average last year.

Ms Peterson: Can I start with your first question? In terms of the cost per student and test results, you will find they vary across the province regardless of the amount of money spent per child. You will find that as you look across the province the cost per student changes based on what you find in each of those communities. In some communities you will find that there is more support for the children — it's not that they don't need the support in other places.

I'll give you a situation. If you notice in our report, in 1991 it was estimated that about $356 million was taken straight from the property tax and being applied to things such a social workers, psychologists, psychometrists etc. Those costs I think you would see in larger centres. It's not that the children in the small and rural or northern communities don't need those services; those services were not available to those children. So I don't think you can take a dollar amount and apply it to test results. It's not valid.

1350

Ms Liz Sandals: If I could add, perhaps tagging on to the end of that question, and then on your second question, I don't think anybody has done an analysis laying out all the per pupil costs against all the test results. You can't just cherry-pick one example of test results and per pupil costs and extend that to the whole province. I think you would also find boards that had higher per pupil costs but also had good results, and you would find some boards with lower per pupil costs which had lower results. I don't think there's been an establishment of a relationship between those two figures.

With respect to your second question, which had to do with class size in Bill 160, in looking at what has actually happened, it would appear that the 1995 class size data were used to establish the class sizes in Bill 160. If you'll recall, the provincial social contract agreement, the end of which was kicking in in 1996, actually required a reduction in the teaching staff of 5% in the province. So the 1996 and 1997 class sizes are often substantially higher than the 1995 class sizes actually were. In many boards, the existing class size in 1997 is higher than the class size required in Bill 160. In order to meet the Bill 160 class sizes, it will spread the kids out over more classrooms; therefore there will be a requirement for more physical space in many boards.

The Chair: I have to interrupt you there and move to the Liberal caucus.

Mr Phillips: The first area of concern for me is the funding model, or whatever they call it. I've always been a bit concerned about whether the bureaucrats here at Queen's Park know what the communities want, whether everything can be run from downtown Toronto for Ontario and whether they can figure out with some formula exactly what London wants and what Kitchener would want and what Parry Sound would want. So I'm concerned when this thing comes out, this sort of bureaucratic formula, whether it will indeed reflect the needs of the local communities or not.

My question is, have the trustees been actively involved in the development of these formulas and can I be somewhat comforted that at least people who have been involved on the front lines have been involved in the formulas when they come out? I gather they are coming out in the next few weeks.

Ms Sandals: In answer to your first comment about whether a formula can meet the need of every child in this province, I don't think so. That's why a sharing of responsibility, cogovernance, would work, because the only way you can deal with the needs of every child in this province is that you've got some elected people locally who can deliver on local community needs.

Secondly, in terms of whether we've been involved in this, the answer is no. We have certainly offered our assistance to the government, both verbally and in writing. We certainly are reiterating our proposal one more time that we have lots of very good people who are more than willing to help. We were certainly involved in the stub year. We offered and offered and were finally there, and I think the result was better than it would have been. We still offer our —

Mr Phillips: That's concerning to me. I represent what used to be a Scarborough riding but it's now moved to Toronto and I now represent a Toronto riding. But there is no question in my mind that one of the reasons this urban environment here has thrived is because of a confidence by people in their local schools. I think that's one of the reasons neighbourhoods have survived and thrived in downtown Toronto, where in other similar-sized urban areas in North America they haven't. I think the key reason has been the schools.

I hate the term "formula," because it's going to dictate the lives of all the children in Ontario, but if these formulas do not reflect the special needs — I know Toronto so let's say the special needs of Toronto — and if there are no what I call front-line people involved in the development of them, I am getting more concerned that when it

comes out, it may not reflect the true needs of the system. Do the trustees have that similar concern?

Ms Peterson: Certainly we are concerned about what the model will look like. If you look in the body of our presentation, we talk about the fact that we need not to take the old model and rejig it; we, along with everyone else in the province, have asked for years that the funding model be changed, because it didn't work.

We've certainly offered our services. You cannot take the old model and rejig it to work. It needs to be based on actual costing: not median numbers, not averages. The work that we've seen to date would reflect an old model that they're trying to fit for the next century, and it's not going to work.

We once again would like very much to be part of it. We are very concerned that the new model cannot in any way, shape or form deliver appropriately to every child in this province or meet local community needs.

Mr Pouliot: Welcome and thank you for your presentation. It's quote obvious to many that since this government took office they have declared war on public education in the province of Ontario. Some board members like yourselves must feel that they are mere victims of the revolution. They fail to acquiesce or to see the evidence of the common sense.

Bill 160 stipulates that by September 1998 you must have a collective agreement in place, but it also says that you no longer have the authority, the power, to levy. It mentions that class sizes will be regulated by the province.

What is it that you will negotiate? You can no longer negotiate power to levy. You can no longer negotiate curriculum. You can no longer negotiate class sizes. What will you do at the bargaining table come September?

Ms Peterson: Clearly this is a problem for us. Understand that these are two-year agreements that we must have in place. We will be negotiating within whatever envelope the funding model gives us. We don't have that funding model yet. We've got a really interesting situation where we don't have the model, but we need very much for the model to be right.

Mr Pouliot: We're talking about education; we're talking about a major ministry. We're also very much aware that time is of the essence. September comes very early indeed, and to this point you have no idea as to the funding formula?

Ms Peterson: No, we don't.

Mr Pouliot: This strikes me, if I may be so bold, as a degree of incompetence rarely seen. We know that Bill 160 was drafted in haste. We had 126,000 of the most educated people, educators, hitting the street to say, "You've gone too far." That should have been food for thought. So you're going almost week by week, month by month, because you don't know what lies ahead.

What will happen to principals and vice-principals in March or April? That's a month and a half down the line. I go to you as my employer. You have as much clout as Mickey Mouse now. Is my job secure? Am I going back to the classroom? What are you telling me, if I'm a principal or a vice-principal?

Ms Sandals: If I can jump in there, certainly that's a concern. We do often feel we're working in a vacuum with some very tight time lines ticking. There has just been a report on principals and vice-principals submitted to the minister where I believe there are some recommendations around needing to sort out some of the issues you have raised about what's going to happen with those folks. We would certainly hope the minister would act on them soon.

If I can go back to another point you made —

The Chair: It will have to be quick.

Ms Sandals: — which is around the funding, we do have a requirement in Bill 160 to reach a first agreement which starts September 1 and goes for two years. That means it's absolutely essential that school boards have some sort of idea of what the funding envelope will be not just for the 1998-99 school year, but also for the 1999-2000 school year, in order for us to negotiate that collective agreement.

The Chair: I'll have to interrupt you there. Thank you very much for your presentation and for your time today. It is appreciated.

Ms Peterson: Thanks for the opportunity.

1400

RETAIL COUNCIL OF CANADA

The Chair: The next presentation is from the Retail Council of Canada, Mr Woolford. Sir, welcome, and thank you for coming.

Mr Peter Woolford: First of all, thank you for the opportunity to appear before the committee. As members will know, we've appeared regularly in recent years. It's always a pleasure to come back and see the familiar faces again.

I'd like to start with a bit of an overview of how 1997 shaped up for the retail trade and talk a bit about our expectations for this year, because both of those sets of facts and guesses are very important to the perspective we bring in our pre-budget advice. Then I'd like to talk a little bit about fiscal policy and finish off with some fairly general remarks on property tax issues.

I'm delighted to be here this year with good news. I was one of the people who kept coming here all the way through the early years of the 1990s saying: "No, the recovery is not here yet. No, we're still in trouble." I'm delighted to be able to say that in 1997 the retail trade experienced stronger growth in sales, driven by domestic consumption. That's an important change in conditions in the province. As a result, our members saw growth of sales go up at a fairly reasonable pace, including the important Christmas period.

While the employment statistics are a little contradictory — you'll see that in our written submission — our sense is that employment in retailing is growing. It depends on which series you look at what the picture is, but our sense is that employment is growing and should continue to do so this year. Unfortunately, we have not been

able to get any Ontario numbers for 1997 yet because of some glitches in the way StatsCan is collecting their data.

With respect to 1998, we expect to see growth continue — again, a first for this decade, two years of consecutive strong growth — but it will be less than 1997. We think it probably will come in at a pace slightly less than growth for the overall economy. There are a couple of external reasons for that. One is the problems in Asia, and the other is that some portions of Canada are experiencing an unusual slower pace of growth, most notably British Columbia.

In terms of the internal Ontario economy, the way we approached it this year was to go looking for the places where you might find extra impetus for consumer growth. I'm afraid to say that we could not find them. We looked at personal disposable income, the debt level of households, savings ratios, and the employment projections for 1998. In none of those areas could we see any prospects that would suggest that consumer spending would grow faster than the economy. That led us to our sense that overall spending would grow a little more slowly than the economy itself.

To turn briefly now to our policy prescriptions, our advice to the government is that they should stay the course. We recognize that over the last two and a half years they have had to make some very difficult, very painful and very hard-nosed decisions. We think the results of those are beginning to bear fruit now, and we encourage them to complete that. The sense of our members is that the tax cuts that the government put in place have helped to restore confidence and improve consumer spending, even though some of that was stolen back by the feds. Our members continue to express concern to us about payroll taxes and about the burden of regulation. So again the message is: Stay the course. Carry on.

An interesting observation I would like to make here is the contrast in strategies between the federal government and the Ontario government. The feds decided to keep their taxes high, and as a result have paid their deficit down quite quickly, much faster than anybody had expected. In contrast, this government has decided to give the tax cut early on, and as a result looks at having a deficit that will go on a little further.

If the purpose of all this is to achieve a restructuring of the expenditure patterns of government, it strikes us that the Ontario experience may offer more opportunity for structural change in government than the federal approach. The reason for that is that we're already seeing very substantial pressures emerge at the federal level for new spending. I would suggest that's occurring even before the feds have fully restructured their own operations internally. By creating almost an artificial pressure through the tax cuts, Ontario is being driven into some of the restructuring changes that we believe are necessary.

Finally, as members would know, we support harmonization of taxes. I've been here singing that song many times. We would note to the committee that the federal government has proposed a common collection agency for taxes, and we would urge the government to look at that in a very positive way. We believe that offers significant savings for both government and the private sector.

Finally, I would simply note for your attention that the expense relating to the problem with computers coming up to the year 2000 is a very significant expense being faced by all businesses. I simply raise the question of whether there might be some tax treatment for expenses in that area, given that they fall both on the capital side and the current side.

Let me talk very briefly about property taxes. We have seen and are experiencing massive changes in the property tax regime. Our members are still sorting that out. They're still trying to determine what the impact on them is. Clearly it varies extremely widely across the industry, and I'm sure members are aware of that. You may even hear from different parts of the retail industry themselves expressing their concerns.

Because of that diversity of view, it's hard for an organization like Retail Council to come up with a single position or give you the Rosetta stone that will untangle all of this complex policy. I think all we can do is point out to the government and to this committee the importance of achieving a fair balance on taxation, to ensure the government is aware that these taxes do have an immediate impact on the competitiveness of firms facing each other, sometimes across the street, and to ensure that it's implemented in a way that isn't so sudden that it completely disrupts the competitive balance.

Finally, to touch very briefly on the new levying powers that municipalities were given last year under a series of acts, we have a couple of concerns there, one of which is being worked through, and one I'm not sure has come to the attention of the government.

On the first one, we are concerned that by giving municipalities a new power to tax, municipalities may be tempted to put in place a whole series of hidden levies which may or may not be related to the services they are providing. It becomes in effect a hidden tax that business pays, built into the price, and nobody sees it. It would be a wonderful revenue generator for a municipality that was so inclined.

The second concern deals with the possibility for fragmentation of the tax burden and fragmentation of the tax collection effort as municipalities each put in place a slightly different regime of taxes. You may hear from other industries telling you that this is a problem in the States, for example, where local municipalities have a wide range of taxing powers. You get quite a thicket of conflicting and competing taxes which, while in their actual dollar terms are not very high, do carry a heavy administrative burden with them. That's a concern of our members.

It should be especially a concern when you look at the role small business plays in retail. If you have a small retailer, they will typically grow early on in their process by moving to a new jurisdiction, to a new location. If I've got a couple of stores in a town, very often the best way for me to expand is to move to the next town. If there is a different tax regime in that next town, it puts a barrier to

expansion in my way. That's certainly something we should be very alert to.

Those are my opening remarks. I'd be glad to answer any questions or comments.

The Chair: We have approximately six minutes per caucus, and we'll start with the Liberal caucus.

Mr Phillips: Thank you for your presentation. I think over the next six months — and I know we should have a longer view of things — the property tax issue is the one that's probably going to be front and centre. My office is getting literally dozens of phone calls, particularly from small business, many small retailers that are now looking at very substantial increases in property taxes because the business occupancy tax has come off. As I've said many times here, the banks are getting quite a big windfall from it, because they were paying the 75% business occupancy tax. They're getting probably a 16% or 17% decrease. The small retailers that are phoning me are getting a 10% or 12% increase.

1410

I might just say that I was looking at the comments by the clerks and treasurers, who warned us about these problems. They said, in commenting on one of the tax bills: "This illustrates better than anything that this government, in its haste, is making legislation by the seat of its pants, without proper thought or planning. Yesterday's bill is amended by today's which will likely be amended by tomorrow's."

No wonder the municipal clerks and treasurers are confused. No wonder they say they are facing an administrative nightmare. No wonder they are asking for a postponement in implementation to let the dust settle and to allow time for the government to decide what it really wants to do and what it doesn't want to do."

What would be helpful I think to the committee, certainly to me — and you're in a very difficult position because some of your large members are going to get a huge, I don't say windfall, but a huge decrease and some of your small members are going to get a substantial increase in taxes — can you just give us a sense, without passing a value judgement on it — you can pass a value judgement on it if you want, but I'm trying to keep you from getting into hot water with your members — of how this thing is likely to unfold over the next six months? It will be the next six months, I think, when everybody realizes this.

Mr Woolford: Even apart from the small-p political difficulties that we have within our association, it's very hard to know at this point. So much of it will be tied up with what the next steps coming from the provincial government are and how local municipalities deal with this.

I was at a session last week. My understanding now is that municipalities will be, for example, constrained in terms of what multiple of the property tax rate they can charge on commercial properties. That may in fact benefit some of our members in some jurisdictions where the commercial tax is much higher than the property tax. Second, my understanding is that there will be provision for municipalities to in effect supertax certain large commercial structures, which sounds to me as though it's aimed at bank towers. Third, it's my understanding that municipalities are going to be given some powers to phase in some of these elements.

At the provincial level it's very hard to know how this will play out. At the municipal level I don't think municipalities have struck their rates yet themselves, so again the impact on retailers is very hard to determine. Then even within the trade, the treatment of gross leases versus net leases has not been sorted out, although again we understand that legislation may be promised which will somehow enable a landlord to allocate some of these new taxes to gross lease tenants. The whole thing is still very uncertain. I honestly don't know how that will turn out.

Mr Phillips: The provincial government now sets the majority of the property taxes, it's no longer the municipality, so we really should in some respects be focusing — we shouldn't ignore the municipalities but 60% to 65% will be set here by the province. What the government announced two weeks ago was that they are going to essentially freeze the rates. What it means is that a retailer in Orillia will be paying three times the rate of a retailer in Huntsville — that's what the government said — or a retailer in Brockville will pay three times the rate of a retailer in Parry Sound — identical businesses equally assessed.

It no longer will be the municipalities where the focus might be, it'll be here at Queen's Park, I think, although we in the opposition or even the government members don't get a chance to vote on it; it's just done by the cabinet. But have your members expressed any views on where they may be competing with a store down the road that's going to be paying a third of the rate, let's say, in Huntsville over Orillia?

Mr Woolford: Certainly. We hear it from members most particularly in large urban areas where the lines of demarcation come right in highly populated, very densely settled areas, where a merchant on one side of the street is in one municipality and a merchant on the other side is in another municipality.

The Chair: Sir, I have to interrupt you there and move on to the NDP caucus. I apologize.

Mr Pouliot: Mr Woolford, congratulations on a good year at last.

Mr Woolford: It's a real relief to be here, Mr Pouliot, and to be able to report good news.

Mr Pouliot: My colleague Mr Phillips has mentioned that property tax reforms will likely dominate the scene, certainly among retailers, in the foreseeable future — well, more short-term future. How impacting is a low Canadian dollar vis-à-vis its US counterpart in terms of the successes of retail?

Mr Woolford: That plays quite an important role. We have covered that in our submission this year. The initial reaction of many people is that, because we source much of our merchandise from the Far East, or a fair portion of it, and many of those countries have experienced significant devaluations, the price of those goods should go down. As we've looked into this with our members, it's

become clear that the important relationship is exactly the one you've identified, between the Canadian dollar and the US dollar.

First of all, again a lot of our merchandise is sourced from the United States, either manufactured there or imported in from a wholesaler for the whole North American market. Even in cases where Canadian retailers are importing either directly from the Orient or through a wholesaler here in Canada who sources from the Orient, many of those contracts are denominated in Canadian dollars.

The closest analogy I can give is for resource industries where Canadian rocks and trees and so on are priced in US dollars. When the Canadian dollar falls, our producers don't lower their prices, they get a profit windfall. That is effectively what is happening in that circumstance in reverse in the consumer trade. It probably means that prices will not go anywhere in the short run in Canada. The market is still very hotly competitive. I can't overstate that too much.

Mr Pouliot: I'm only too painfully aware of the fluctuations vis-à-vis commodities in mercantile markets, Mr Woolford.

You mentioned in your all-encompassing opinion and presentation that you would favour harmonizing the GST and the provincial sales tax. Are you in favour of taxing children's clothing?

Mr Woolford: Yes, we are.

Mr Pouliot: You are in favour of taxing, so you would wish to enlarge. Would it simplify matters for retailers if the two were harmonized?

Mr Woolford: I think the first argument we would make is one of fairness, that if we are to have a sales tax it's going to be borne by a range of commodities. There is a good argument to be made to exempt almost anything and there's a good argument to tax almost anything. The fairest tax, in our view, is one which is spread across the widest space.

Mr Pouliot: So the tax on a Mercedes-Benz would go down substantially but children's clothing would be taxed to make up the difference.

Mr Woolford: Or alternatively, the price on a fridge or a stove or other —

Mr Pouliot: A touch of reality. I thank you, Mr Woolford.

You've mentioned about different styles, where the federal government chose to delay the personal income tax decrease, if you wish, and opted to reduce the deficit instead — it's a tough call — but that this regime, this government has chosen to do a bit of both. Actually, I just want to set your presentation straight. The truth is they will be spending more money this fiscal year than any government has spent in any previous fiscal year, and the tax cut, since there is a deficit and a huge debt, is entirely subsidized with borrowed money. But it's a school of thought. Some people believe you can do a bit of both; some people say pay your debt first before you throw a party. You don't go on one last binge with the credit card because you've already exceeded the capacity of that credit card. I welcome that.

Mr Woolford: Could I respond to that?

Mr Pouliot: Indeed.

Mr Woolford: That does trouble us. We note that in our submission. It is a tough call. My observation there was simply that it would appear that the federal government already now is coming under intense pressure to develop new programs, to increase spending on current programs, and that pressure seems to be more intense than Ontario is facing, because the fiscal circumstances of the two governments are different because of the strategies they've chosen.

Mr Arnott: Mr Woolford, thank you very much for your presentation. I, like you, recall those days when you used to come into legislative committees in the early 1990s and the state of the retail trade was in dire straits in those days. I don't know how else you'd characterize it. Would you care to remind some of the committee members who may have forgotten what conditions were like in those days, how some of the government policies of the early 1990s contributed to the negative state of the retail trade?

1420

Mr Woolford: It certainly was a very difficult time, there's no question. We were experiencing probably the worst recession since the Great Depression of the 1930s. We were finding a large number of our members were going into bankruptcy. Many others had to go into bankruptcy protection of one form or another. Even those who were not going bankrupt were closing their doors. Employment was falling, sales were falling. It was a very difficult time for the industry.

We were very concerned at the time about the government's expenditure patterns, about a number of their initiatives which appeared to make Ontario a much less attractive place to invest. Even though retailers are in a sense economic hostages, we prosper as the economy as a whole prospers, so that if other segments of the economy are hurt, the retail trade is hurt as well.

It was a very difficult time. We are not out of the woods by any means either. I would simply point to some of the recent mergers and acquisitions. Some of our largest members have been in trouble in recent years. That's a reflection of ongoing structural change in the industry. It reflects excess capacity, it reflects still very tough competition and it reflects a customer who even today is skittish, careful, cautious. Canadians went on a real spending binge last year. Their spending went up by about 5% or 6%. That's not exactly sailors out on a spree. Even today, with the good news that I have — it is a positive environment — it's not time to break out the champagne.

Mr Rollins: Thanks for your presentation. If you keep pounding on something long enough, it finally cracks. Maybe that's what has happened. It cracked and on your side.

One of the things you attributed to the federal government was balancing their budget very quickly. I just want to remind you that the $2 billion a year that they deducted from the cheque they send down to Toronto each year, if we had had that, I believe ours would have been balanced

now, if you did the mathematics in the time it came down. It would have been at the same point. However, theirs wouldn't have been. That's one of the things I would like to draw to your attention.

Maybe I oversimplify some things at some time, but when I look at something that I want to grow and I have to put some money back into it to make it work better, I think it works very well that way. As a government, we chose to put some of those dollars back into the economy through the tax cut and to make sure that it did get out and give us some more job growth.

Even last month, with the storm in the east, we still had a relatively large growth of new jobs and most of them full-time jobs. We've heard from the opposition continually that they're only McJobs and small Becker-type jobs, but they aren't, they're permanent jobs. That's one of the things that I thought. Thanks for your presentation. I really appreciate it.

Mr Woolford: Could I respond to a couple of those? The phenomenon of offloading is not confined to the feds, of course. This current government has gone through a fair amount of downloading of responsibilities to municipalities. The jury is still out, obviously, on where the financial aspects of that will turn out. Who you believe depends upon where you sit at this point. It's just a caution that I would note, but yes, indeed, the tax cut did have positive effects. Our members believe that it did contribute to growing sales last year.

I'd like to pick up on that McJobs point because we've had that thrown at us a number of times as an industry. What people need to remember is that retailing is often the industry where people get their first job. It is a vital first step in becoming a fully functioning member of the labour force. Many young people, still in school, pick up a job at a local hardware store or grocery store and start to learn some of the basics of working in the work world: how to deal with adults who aren't your teacher or your parent, how to take instruction, promptness, proper dress, professional demeanour, how to serve the customer. Those are all life skills that every one of us needs to learn to survive in today's world and those are taught by those so-called McJobs. In our view, it's a bit of a misnomer. These are valuable, entry-level positions where new Canadians or people returning to the labour force brush up their skills, make themselves more valuable contributors to the labour force.

The Chair: Thank you very much and thank you for your time and your presentation, sir.

ONTARIO FEDERATION OF AGRICULTURE

The Chair: The next presentation this afternoon is from the Ontario Federation of Agriculture. Lady and gentlemen, thank you very much for attending. Welcome. We have 30 minutes for you to use as you see fit.

Mr Ed Segsworth: I'm Ed Segsworth, president of the Ontario Federation of Agriculture. I have with me Mr Ken Kelly, vice-president, and Sharon Rounds, vice-president. Mr Kelly will be making the presentation this afternoon.

Mr Ken Kelly: We'd like to spend about 10, 12 minutes of our time on presenting the high points of our brief to you and we'd like to save as much time as possible for questions.

The Ontario Federation of Agriculture would like to thank the standing committee on finance and economic affairs for allowing us the opportunity to participate in this year's provincial budget planning process.

At this point I'd like to ask if we could enter the entirety of our brief in the record and that would eliminate the need for the reading of all of it and then we could deal with the high points.

The Chair: It will be. Thank you.

Mr Kelly: Thank you. I appreciate that.

We've prepared this brief for your review and in it you'll find an explanation of why agriculture is truly one of Ontario's economic success stories. Certainly the first portion of our brief contains those facts. It explains the importance of public sector support for the agriculture and food industry and the necessity of increasing provincial funding to our public sector partner, the Ontario Ministry of Agriculture, Food and Rural Affairs. Our brief also identifies government initiatives which we deem essential to the continued growth and prosperity of our industry and the Ontario economy. In the interests of making the best use of the committee's time, I'll summarize our recommendations.

The first recommendation is that we provide full compensation to registered farmers for the losses attributed to the ice storm of 1998. The recent ice storm that affected eastern Ontario was the largest natural disaster ever recorded in Canadian history. The long-term effects to agriculture may not be known for many months. Estimates are that the devastation to land, livestock and people for the entire region will cost at least $1 billion.

Second, we would recommend an increase in funding to the Ontario Ministry of Agriculture, Food and Rural Affairs' agricultural programs. OMAFRA spending for the 1996-97 year was approximately $293 million. While this represents a slight increase from the year before, it is still a full 35% below the ministry's 1991-92 budget of $453 million.

Third, we would recommend that we allocate new funds for the Ministry of Agriculture, Food and Rural Affairs to allow the ministry to properly carry out its crucial responsibilities in the area of rural development. Ontario farmers are fully supportive of OMAFRA's efforts in rural development but we do not believe that funding for such activities should come at the expense of agricultural needs. Channelling money away from agriculture to fund rural development programs will merely serve to slow the growth of rural Ontario's core industry.

Fourth, we would like a permanent at-source exemption on all building materials purchased for farm use from the retail sales tax. The temporary RST rebate for farm building materials has facilitated some of the much-needed reinvestment in our farm businesses, created jobs and

stimulated rural economic development. Creating a permanent at-source RST exemption for all building materials purchased for farm use would continue to benefit rural Ontario and be particularly well received in the rebuilding efforts in eastern Ontario.

Fifth, replace the current retail sales tax exemption and refund mechanism for eligible farm products with an at-source exemption using the Ontario government's farm business registration number as the qualifying identification for exempting products for farm use from the RST. Most farmers have a registration number and the registration number would be readily identified by retailers. Government could reduce tax leakage because the registration number provides an identifiable means to conduct random tax audits and discourage abuse.

Sixth, we would recommend that we require the farm business registration number as the eligibility criterion for farm licence plates. Use of the farm business registration number as a determiner of eligibility would counter arguments from the commercial trucking industry that farm plates are the subject of widespread abuse. It would also ensure that only eligible farmers are able to purchase these licence plates.

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Seventh, through the Ontario Ministry of Agriculture, Food and Rural Affairs and the University of Guelph agreement, increase funding to agrifood research. Explore the feasibility of using matching investments to increase private sector investment in applied agrifood research and fully explore the use of tax credits as an innovative approach to stimulating private investment in capital infrastructure and applied research. Increased funding in agrifood research will pay dividends to the industry as a whole. Specifically, consideration should be given to directing more research dollars to agricultural biotechnology. Studies suggest that the productivity of Canadian farmers grew at an average rate of 1.9%, compared to 0.6% for other Canadian businesses. This farm productivity growth can be attributed to the adoption of new technologies, including biotechnology.

Our eighth recommendation is that we establish a combination grant-loan program that will assist farmers to implement farm improvements that will benefit the environment. There are situations where the only practical means to address an environmental concern is by undertaking a major capital improvement. While such capital improvement will significantly reduce environmental degradation, it often adds absolutely nothing to the profitability of the farm enterprise. Thus, farmers are faced with the dilemma of not being able to cash-flow a farm project that they know probably should be implemented.

We recommend investment in a province-wide groundwater management strategy by supporting the initiatives of the Ontario Farm Environmental Coalition, for example, to provide funding to encourage baseline water well testing in rural Ontario, to enact a long-term financial commitment to evaluate best management practices for nitrogen use efficiency and to increase provincial evaluation and monitoring of Ontario's groundwater supply in order to make rational decisions on groundwater allocations. The farmer-led, multistakeholder water quality working group is an ideal platform that incorporates provincial understanding of the issues and provides the opportunity for local solutions.

We recommend that we provide funding for the Ontario Agricultural Training Institute to enable it to meet client needs into the future. OATI is a unique training institution which is an ideal partner to assist OMAFRA in meeting its business objectives in the rural and agricultural sectors. To be effective, the organization requires funding to ensure that the organization can concentrate on its mandate despite project funding variations.

Our 11th recommendation is to establish a fund to assist with training delivery for farm businesses. There is a particular need for training for new and/or innovative farmers in the areas of information technology, electronic communications, human resource development, financial and risk management, marketing, production technology, quality assurance and environmental management. Just as the introduction of new production technology brought about a revolution in farm productivity during the postwar period, the OFA believes that management skills and technology will play a similar role in the 21st century.

A further recommendation is to assist with the establishment of rural computer training facilities. Farmers require computer training on software programs specific to farm management that often isn't available through local school computer labs. One approach is to provide mobile, community-shared computer training facilities for rural communities and farmers.

We recommend that we continue to fully fund Ontario's safety net programs. While the province allocates $75 million to farm safety nets, this amount is inadequate to meet the needs of the diverse commodity interests of the province.

We recommend that we continue to work with farmers to extend adequate safety net coverage to all commodities that have expressed an interest in enrolling. Farm safety nets offer a more stable and certain business environment for farmers by providing protection against periodic threats from inclement weather and volatile commodity markets. Ontario's safety net programs are generally funded through a 50-50 contribution agreement between the producers and the federal and provincial governments.

Our 15th recommendation is that we would like to reintroduce the Intervenor Funding Project Act to allow for full public participation in select projects before the Environmental Assessment Board, the Ontario Energy Board or the joint board.

We recommend that we release the complete details regarding municipal access to the community reinvestment funds. This funding is to facilitate municipal restructuring as well as offset significant municipal tax losses resulting from property tax reform and the transfer of provincial services to municipalities. Details on eligibility and how municipalities can access these funds remain unavailable. The absence of this information could affect farmers living in rural municipalities whose councils have little recourse but to raise local property taxes.

We recommend that we ensure that adequate resources are available to municipalities to address the capital and maintenance requirements for transportation infrastructure. Farms are critically dependent on the road network for marketing their livestock and produce as well as for the delivery of their purchased inputs. If affordable access to markets or supplies is compromised by a realignment of government responsibilities, the whole sector and all of rural Ontario will suffer.

We recommend that we maintain the provincial predator compensation program and ensure that adequate funds be earmarked to fully compensate farmers for their losses. Predator compensation is a must for Ontario farmers. Public policy in Ontario encourages the growth of wildlife populations. If public policy and programs encourage the growth of these populations, then it follows that the public purse should shoulder its responsibility for compensation for predator loss.

We recommend that we undertake to amend the Livestock, Poultry and Honey Bee Protection Act to include all non-traditional species of livestock; for example, ostrich, emu, deer, elk, wild boar, all raised on Ontario farms. Losses these producers face due to predator attacks cannot continue uncompensated, and we encourage a complete review of this program to ensure the equitable treatment of all producers.

So you see, our list of recommendations contains the tools farmers of Ontario require to go about the business of stimulating the economy in this province, creating jobs. With those comments, we're open for your questions. If we're able to share that around the table here, we'll do that.

The Chair: Thank you very much, Mr Kelly. We have approximately five minutes per caucus. We'll start with the New Democratic Party.

Mr Pouliot: I have two questions; the first one deals with your second recommendation, attested by page 14 of your brief, the subject matter is "Ontario Agrifood Program Expenditures." I did some rough calculations. From 1991-92, you're approximately right, it's a reduction of 35% in terms of the relationship with the provincial government. How is this impacting on the people you represent, Ontario farmers?

Ms Sharon Rounds: Farmers, being the lot they are, don't tend to complain too much about cuts in funding. But we can see that farmers are going into debt more deeply as the years go on without adequate funding on some of these programs. They're taking on more risk and going into probably untested areas at times because of the fact that there isn't research capability around and some dollars aren't being spent that would help them out in making good, solid decisions.

Mr Kelly: Mr Pouliot, to add to my colleague's comments, it's important to point out that this 35% is not in inflation-adjusted dollars; that is in straight nominal dollars, so the difference is greater than 35%. Certainly through the rest of our brief we saw some of the things that haven't been able to evolve with the industry, like the funding for safety nets, like the services and technology transfer that may well be required in the countryside, as well as the issue of research.

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Mr Pouliot: We all watched with dismay when the ice storm hit certainly with vengeance, and in my opinion no one was more impacted than the farming community, of course, notwithstanding that many people were impacted, but the damage done to the farming community was certainly unprecedented — a time of need, a time to share. Are you aware of a timetable? What are the positives? There are good things happening in terms of help from the government, but what would you like to see happen and when?

Mr Segsworth: First, we would like to see agriculture recognized by the farm registration number. The recognition now from the federal government is that you have to make 51% of your income off the farm to be classified as a full-time farmer. Anything below that and you're classified as a part-time farmer. So the cost sharing is quite a bit different in that arrangement. We would like to see the provincial government and the federal government recognize a person registered under the farm registration number as being a full-time farmer.

Mr Pouliot: Are you successful, less successful, more successful than the province of Quebec? And please, I am not, with all the sincerity at my command, comparing one regime to the other.

Mr Segsworth: As of yet, negotiations are still going on. We don't know what the final outcome will be, but we have faith in the government, that they're negotiating with the federal government and that a full compensation package will come forward.

Mr Pouliot: I certainly hope so.

Mr Rollins: Thank you very much for your brief. It's certainly nice to see one laid out with the kinds of recommendations you have in there. I spent yesterday with Bill 146, and I believe you people are familiar with that bill and the support you people have given to it. I think a couple of your recommendations on 146, particularly on item 19, were fairly well dealt with in Bill 146. So when those recommendations in Bill 146 are put in, it will pretty well alleviate number 19's concern.

One of the other things on number 9, with the province-wide groundwater management strategy — we have a person, not in my riding but in an adjacent riding, Mark Henry, who had just put together a program that I believe was down at ROMA that wanted to log all septic systems, all wells, in Ontario and have it open to scrutiny and be able to know the impact. Is that something similar to what you people are trying to recommend here in number 9?

Mr Segsworth: In Bill 146?

Mr Rollins: No, this is a private —

Mr Segsworth: No, I don't think so. There's a lot of investigation out there now going into non-source-point pollution and we have to look at where that is coming from and it may not be agriculture; it may be other areas that it's coming from.

Mr Rollins: Another thing on the storm, certainly the storm of the century: Whatever can be done still will prob-

ably never be enough, but let's hope we can do as close to enough as possible.

Mr Kelly: Mr Chairman, if I might, before we move on to the next question, Bill 146 provides protection from nuisance lawsuits over odour, noise, dust etc. It bears no relation to the need for compensation for predator damage. So this is a specific and separate recommendation.

Mr Rollins: I realize that, but I think in yesterday's hearing it was addressed, in 146. There was a presentation made on that, talking about compensation particularly for that.

Mr Kelly: There may well have been, then.

Mr John R. Baird (Nepean): Thank you very much for your presentation. I certainly appreciate the time you took to present to us and we'll reflect on what we heard.

With respect to two of your recommendations, number one, I agree with you very strongly. There were a lot of farmers in my constituency in our part of the province outside of Ottawa — and just from talking to farmers particularly in the dairy industry — who were really hard hit and you really didn't know about it until you talked to someone at 2 in the morning, who was going into day three without a generator. One positive thing, if you could say that, that came out of it, certainly for those people not familiar with rural Ontario, is that they have a much better sense that it's a really high-tech operation and it's not the way it was done 50 years ago or even 20 years ago. That's why I wanted to come to question 7 of your recommendations with respect to biotechnology and agricultural research in that area. What types of suggestions do you make to us in that area — because that's an area that's of interest to me — in terms of what we can do to help increase the productivity of the agricultural industry in the province?

Ms Rounds: On biotechnology particularly?

Mr Baird: Sure.

Ms Rounds: Our experience has been that we've been cutting back in the research area, and farmers, as I mentioned before, are going ahead and instituting some of their own research and it's not necessarily in the best environment. We've been very lucky in this province to have had the University of Guelph as a place that has done a good deal of research in the past and that research has been available to Ontario farmers, and I think they've utilized it to a great degree over the years. They're finding themselves severely curtailed in relationship to the competitive aspect of global agriculture, because where Ontario farmers are not having the research dollars spent, other governments are gearing up and putting more and more money into research to increase the competitiveness in the United States and in Europe particularly. So we're competing in a global market with those farmers without the dollars being spent on research so that we can keep up to their technology.

Mr Arnott: Thank you for the presentation. One of your recommendations, and you alluded to it just now, is the need for increased expenditure on research related to agriculture through the University of Guelph. Last year's provincial budget announced an R&D challenge fund in which the government would contribute about $500 million a year in new funding to create this and hopefully lever additional funding from the federal government, from the private sector and also from education institutions. Is this the kind of thing you're suggesting we ought to be promoting?

Ms Rounds: I would say that's definitely the right type of move, yes, and we appreciate the fact that this was set up in last year's budget.

Mr Phillips: Thank you for the presentation from a hugely important sector of Ontario's economy. I want to start on the community reinvestment fund issue, because I think when the government said, "We're going to change the farm tax rebate program," the Ontario Federation of Agriculture applauded that, and that was a good idea. When the other shoe dropped, though, that the gift was announced by Mike Harris but will be given by the local councils, that runs the risk of pitting the farm community against the local municipalities. You may not remember this, but we proposed an amendment when we were dealing with the bill that would ensure that councils were 100% reimbursed for the lost revenue to prevent the possibility of conflict between the farm community and the municipality.

I'm quite worried about this thing now because, in addition to that announcement, the government originally said that the cost was $177 million, and then in its second announcement it said it was only $77 million because the province was going to handle the education portion. I have a strong worry that that's $100 million off the province's books, on to the property taxpayer, not accounted for.

Coming back to my question here for the federation, I know your advice to the committee is to get the community reinvestment fund announced and the criteria announced as quickly as possible. I have a two-part question. One is, have you also kept an eye on the education part of this and how that's going to impact? Second, municipalities are going to have to set their tax rates pretty soon, I think. Have you any indication from the government when it plans to announce the details of the community reinvestment fund?

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Mr Segsworth: Mr Chairman, we've been joined by Mr Ron Bonnett, a member of the executive, who is possibly more up on this subject. I'd like Ron, if permissible, to answer that.

The Chair: By all means. Welcome, sir.

Mr Ron Bonnett: Thank you for the question. The government has come forward with some preliminary figures on the community reinvestment fund, based on some calculations that show what they anticipate being spent in certain areas, social assistance being one, ambulance services being another, and you go down the list. There's also an allocation in there to compensate for the loss of the farm tax rebate. One of the things we have to watch now is to see if the actual figures that are coming forward as expenses by municipalities match up with the estimates that were used to calculate the contribution for the community reinvestment fund.

Some of the preliminary indications that we're getting is that there is going to be a shortfall. One of the things the federation is going to be doing is looking at that and following it through and trying to identify where the shortfall is coming. We were given assurances by the government that there would be compensation for those municipalities that were drastically affected by the farm tax rebate. We want to monitor how it actually follows out in the end to see, if there are increases required in taxation, what the reason is for that increase. Is it an increase in social assistance costs? Is it an increase because of having to pay for public health? Is it an increase for some other reason?

Mr Phillips: I think that's wise. My advice is to keep an eye on the education part of it too, because that's $100 million.

In my opinion, your recommendation 7 is a very important one, not that they aren't all important. I hate to live in the past, but when we were in government, as they say, one of the things that I very much supported was trying to establish centres of excellence. That's why we moved the Ministry of Mines to Sudbury and tried to encourage the community college, the university; we planned on moving the Ministry of Tourism to Niagara Falls. We also planned the move of the Ministry of Agriculture to Guelph, to try and get the synergy of the University of Guelph, the ministry, the private sector and the farm community all working together.

I'm not sure I know enough about these specific recommendations to know whether they're the very best, other than to say that I think for all of us it's extremely important that we find ways to get that synergy working quickly. I'm also encouraged by the suggestion on biotechnology. My understanding is that Saskatchewan moved very quickly in this area and got kind of a running start on it, believe it or not. I don't mean to denigrate Saskatchewan. I'd hate to see us lose an opportunity, so I very much like that.

Is there some synergy now taking place in the Guelph area with the private sector there, the federation there? The university, I know, is focusing a lot on it, obviously. Are we starting to see some payoffs on that?

Mr Segsworth: With globalization of our markets, we as an agricultural community are going to have to look at a whole set of new tools to be competitive in that global market. This is one of the tools we have: research biotechnology. The more we can put into that type of thing, it's going to give us what we need to be part of that global market. I can see where biotechnology is going to give us a leg up in a lot of areas that we need.

The Chair: Thank you, sir. We're going to have to end it there. Our time is up. We thank you for your time and for your presentation.

CANADIAN FEDERATION OF STUDENTS, ONTARIO COMPONENT

The Chair: Our next presentation this afternoon is from the Canadian Federation of Students, Ontario component. Gentlemen, welcome. Thank you for coming.

Mr Wayne Poirier: I would like to start by noting that in our brief we mentioned that two things would be appended. I'm just looking at my copy of the brief and they're not appended, so I will forward them to the clerk of the committee.

The Ontario component of the Canadian Federation of Students is pleased to make this presentation before the Ontario finance and economic affairs committee. CFS represents more than 110,000 students at over 20 institutions in Ontario at the undergraduate, graduate and college levels. Our key goal is the achievement of a high-quality, publicly funded post-secondary education system that is accessible to all.

Our vision of the post-secondary education system is one that is of high quality and it rests on its position as a centre of higher learning, not one primarily concerned with the mass production of diplomas, degrees and credentials, nor one centred purely on the notion of providing training for jobs in the private and public sector.

CFS is also committed to universal accessibility to post-secondary education in Ontario. Foremost in this regard is our belief that a prospective student's inability to finance her or his education should never prevent access.

Unfortunately, the post-secondary education system in Ontario is moving away from such a system towards one whose reputation for excellence and accessibility has been progressively compromised. In this presentation we hope to highlight briefly the importance of accessible and high-quality public post-secondary institutions and make some suggestions as to how to improve quality and accessibility.

We'd like to start with the social and economic benefits of post-secondary education. Measured on such terms as the quality of education and research, responsiveness to student and community needs and international recognition, Ontario's colleges and universities have proven invaluable in meeting the social, cultural and economic needs of the province and of the country.

There are many facets to higher education's role in ensuring our social and economic wellbeing. Its enhancement of a nation's global competitiveness, its ability to significantly contribute to the pool of highly skilled workers and cutting-edge research, its development of a well-educated populace and its enrichment of cultural life are only a few of those examples. What is interesting in the present context is the degree to which post-secondary education will play an increasingly larger part in Ontario's social and economic development.

The federation would like to recommend the following:

(1) The government of Ontario should recognize the growing importance of post-secondary education to the social, cultural and economic prosperity of Ontario.

(2) The government of Ontario should cease measuring the quality of post-secondary education by its ability to provide training for the private sector.

As such, the government of Ontario should:

(1) Reaffirm the autonomy of public post-secondary public institutions to develop a curriculum free of government and private sector intervention.

(2) Ensure that curriculum is neither determined by the private sector nor focused solely on job creation.

(3) Cease using default statistics as a way of penalizing programs offered at public post-secondary institutions that are not necessarily geared to the needs of the private sector.

Mr Ashkan Hashemi: I'm going to talk a bit about the current funding situation in Ontario.

By all indications, the role of post-secondary education in enriching the social, cultural and economic life of Ontario is becoming predominantly more important. What is needed now is a strong commitment to ensure that higher education can meet and exceed the expectations placed on it. Of greatest importance is a commitment to sustained and stable public funding which would give universities and colleges the financial ability to surpass the challenges currently put before them.

Unfortunately, in Ontario the reverse has been true. While there's a general acknowledgement of the growing importance of colleges and universities, this government's response has been to slash funding for higher education in an unprecedented way. For the 1996-97 school year alone, Ontario's colleges and universities lost $400 million in funding — a loss that translates, in constant dollar terms, to approximately a 17% cut. Public funding for post-secondary education is now frozen at least until the year 2000, with no provisions for increases in inflation. As it stands, this government's funding policy will ensure that Ontario's colleges and universities will remain the worst-funded higher education facilities in the country as we enter the next millennium.

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The continuing importance of the post-secondary sector in addressing Ontario's social and economic needs is clear. In the current funding climate, however, what is also clear is the growing inability of our universities and colleges to meet these needs. From all reports and indications, our social and economic viability rests largely with the ability of our centres of higher learning to meet the challenges of the future. As such, it makes no social or economic sense for the government to point out society's need for more skilled graduates, a well-educated population, advanced research and so on while continuing to make ever greater cuts to funding for those sectors which provide these services.

In that vein, the federation would like to recommend the following:

(1) The government of Ontario should provide adequate funding for post-secondary education in Ontario. As a minimum requirement, we would suggest that funding for Ontario's colleges and universities should be no less than the national average. Currently, as we've pointed out, Ontario ranks last in providing funding for post-secondary institutions.

(2) The government of Ontario should improve funding for research from where it currently stands.

Funding cuts also have an impact on the tuition fees for students and the accessibility of a system as a whole. Ontario has consistently lacked a coherent tuition fee policy. Instead, tuition fee levels have largely depended on the provincial government's willingness or unwillingness to fund post-secondary education. It is therefore not surprising that students have borne the brunt of the recent cutbacks by way of inordinate tuition fee increases.

Including the announced 10% increase for 1998-99 and 1999-2000, tuition fees will have increased by 158% for university students and 147% for college students in 10 years. The largest increases have occurred most recently. The 20% increase in university tuition fees and 15% increase for college tuition fees for the 1996-97 school year marked the largest single-year increases ever in Ontario. By the end of its mandate, this government will be responsible for a 53% college tuition fee increase and a 60% university fee increase.

These fee increases, combined with declines in earnings and savings, mean that many avenues traditionally open to students for financing their education are now closed. Many families or individuals can no longer fund post-secondary education through their savings, while a bleak employment market makes the prospect of saving enough to go to school a near impossibility. Many people are now looking at the cost of a degree or diploma and deciding that it is not an option for them. Many others, already partway through their program of study, are realizing they can no longer afford to continue.

In either case, the accessibility of Ontario's post-secondary education system is progressively deteriorating. Indeed, applications to Ontario's universities are at their lowest point in 10 years, with approximately 10,000 fewer people applying in 1996 than in 1992.

To make matters worse, the Ontario government, in its 1997 Economic and Fiscal Statement, announced the complete deregulation of fees for graduate and professional programs at universities, for post-diploma programs at colleges, and for other college programs "where job opportunities for graduates are virtually guaranteed and income after graduation is substantial."

The deregulation of entire programs of study within publicly funded institutions is without precedent in North America and will undoubtedly mean massive fee increases in certain programs or at certain schools. Consequently, deregulation will create a two-tiered system, where the only criteria for enrolment in certain schools or programs within schools will hinge on a student's ability to pay.

As it stands, the accessibility of our post-secondary institutions has already been seriously compromised. Any further increases in tuition, especially of the kind associated with deregulation, are bound to have devastating ramifications on the participation rates of lower-income students and on the socioeconomic makeup of the student population. To put it bluntly, we are not far from a system in which ability to pay outweighs all other considerations in determining Ontario's future post-secondary students.

In that vein, the federation would like to recommend the following:

(1) The government of Ontario should implement an immediate tuition fee freeze.

(2) The government of Ontario should be accountable for tuition fees through a clear, coherent tuition fee policy.

(3) The government of Ontario should regulate fee levels at all public post-secondary institutions.

Mr Poirier: This time I'd like to concentrate on student aid and student indebtedness. More and more students in Ontario are using the Ontario student assistance program to fund their studies, and the individual debt carried by these students is rapidly mounting. The number of OSAP recipients has increased from 142,260 in 1991-92 to more than 217,000 in 1995-96, an increase of over 50% in 5 years. Currently, over half of all students in Ontario require student loans to finance their education.

The debt loads accumulated by these students offer an even more distressing picture: In 1991-92 the average yearly loan per student was $4,755; by 1995-96 this number had increased to $6,400 per student. Based on this average loan, and assuming no fee increases in subsequent years, an undergraduate student could be looking at an average debt load of more than $25,000 for a four-year degree.

The reasons for the escalating number of students on OSAP and the crippling debt loads they incur are manifold. Skyrocketing tuition fees have certainly had an impact, as have bleak year-round employment prospects. In addition, the Ontario government cut virtually all forms of grants back in 1993 under the previous government and they have not been restored, nor is there a granting program in place under this government, thereby forcing most students to rely solely on repayable student loans.

Canada is one of only two Organisation for Economic Co-operation and Development countries without a national system of student grants. The combination of these factors on student debt in Ontario should not be underestimated. As it stands, Ontario's post-secondary students are graduating with the highest debt loads in all of North America, even when private schools in the United States are factored into the equation.

Much has been written on the subject of student loans as a means for circumventing the negative impact of high tuition fees on accessibility. However, as recent developments in Ontario have clearly demonstrated, this logic is flawed. Students wishing to pursue a post-secondary degree or diploma have been required to amass greater and student greater debt loads in the form of repayable loans. For many current or prospective students, the prospect of incurring what could amount to lifelong debt is inconceivable. They are simply left with the option of dropping out of post-secondary education or never applying in the first place.

From a larger economic perspective, we would also question the logic of saddling students with immense debt loads at such an early stage in their lives. A generation of massively indebted graduates does not make for a bright economic forecast in Ontario.

Unfortunately, this government's response to the growing need for adequate student assistance, including viable debt reduction strategies, has been the introduction of measures that actually increase student indebtedness and make it more difficult for needy students to access the financial aid they require.

We are also concerned about the present Ontario government's determination to replace OSAP with an income-contingent repayment plan, a plan that its promoters claim provides a more flexible repayment option to the individual student based on her or his income after graduation. ICRPs have been abandoned by other provinces and have been demonstrated to be too costly to both students and governments, as they increase debt loads, lengthen repayment periods, thereby increasing the amount of interest accrued for students, and bear tremendous administrative costs.

While ICRPs allow graduates to repay their loans at a rate geared to their income, they do not reduce the overall amount of debt. In fact, for individuals with low or middle incomes, the amount of debt increases as the interest compounds over the repayment period. At best, ICRPs would continue the cycle of debt for Ontario's students by continuing to mask the real problems; at worst, they will compound the problem by making post-secondary education more expensive and less accessible.

In this vein, the federation would like to recommend the following:

(1) The government of Ontario should provide sufficient funding for student assistance to meet the needs of Ontario's students. Such funding should continue to be separate and distinct from operating grants.

(2) The government of Ontario should scrap income-contingent repayment plans in favour of an enriched OSAP designed to alleviate the debt burden currently facing Ontario's students.

(3) As part of such an undertaking, the government of Ontario must reverse the erosion of the current OSAP system by:

Providing adequate funding for student assistance to meet the needs of students;

Restoring OSAP funding for part-time students who have been cut out of the system;

Restoring child care bursaries for students with dependants so they can continue to attend post-secondary education;

Restoring access to social assistance to students with dependants so that they do not rely on loans to raise their families;

Revamping parental contributions and dependency requirements to reflect current realities that students are facing;

Restoring students' allowable income during the study period to the previous amount of $1,700, which has been chopped down to $600.

(4) An improved OSAP system should include the following:

Grants to help reduce the debt loads carried by students;

Targeted assistance for students with dependants or special needs;

Expanded work-study opportunities for students to earn while they study;

Expanded interest relief strategies and debt reduction measures to aid students who experience difficulties during repayment and as a way to reduce defaults.

(5) The government of Ontario should publicly and aggressively call upon the federal government to implement a national system of grants as an effective tool in reducing student debt loads.

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In conclusion, in this brief we have attempted to outline the negative impacts the funding cuts have had for the quality and accessibility of Ontario's colleges and universities.

There are many areas we would have liked to address but were simply unable to based on time and space restrictions. The increasing role that technology is playing in the delivery of higher education, the increasing commercialization of our campus space and the role of the corporate sector in education, the need for open, transparent and democratic governance in our institutions and students' roles within governance are only a few examples.

The main issues facing students today, however, are a direct result of the erosion of government funding to post-secondary education, and this must be our primary concern. We believe that the provincial government must play a more effective role in ensuring that students across Ontario have access to publicly funded, publicly administered post-secondary education. It must also ensure that such a system offers a comprehensive range of programs and services and that does not require the accumulation of massive debt loads for students to attend.

To achieve this, the Ontario government must make a commitment to post-secondary education. Such a commitment would include a reinvestment of public funding to higher education so as to allow Ontario's colleges and universities to meet the growing demands placed upon them and would stop the trend of increasing tuition fees in order to make up for government underfunding and cutbacks.

In addition, the provincial government must reinforce its commitment to an equitable student aid system, one that does not burden students with debt loads that would make for a lifetime of repayments.

That is a summary of our brief. At this time we would be open to taking questions from members of the committee.

The Acting Chair (Mr E.J. Douglas Rollins): We will start with the government side.

Mr Baird: Thank you very much for your presentation. We will certainly reflect on what you've had to say.

I noticed a number of areas and I wanted to get a thought from you with respect to both an income-contingent loan repayment plan and the issue of tuition. Obviously it's a concern. We want to help young people get their first job. I think it's of considerable concern to all of us in all parties, not just here but across the country, and for young people and their parents and other generations alike.

We heard a proposal yesterday from one of the high-technology associations when we discussed the potential of a differentiating tuition policy in an area where there are graduates. Take, for example, someone who graduated from computer engineering and they were going on to an average of $60,000- to $70,000-a-year jobs. If you could charge potentially a higher amount of tuition — and given the success rates, well over 90% and in some programs 95%, 98% are going on to jobs making more than $40,000 or $50,000 a year in their first year of employment — they would be better able to repay those loans and you could take that money and increase the number of spots in high-technology programs, thus helping to deal with the youth unemployment problem which is of major concern to us all. How would you folks feel about that?

Mr Poirier: One thing you have to realize is that there are socioeconomic barriers for many students that would prevent them particularly from going into those programs. This is extremely problematic when we see that certain individuals within Ontario will be deterred from going into those programs because of the fear of accumulating massive debt, even with the potential of coming out with an income.

Those students with socioeconomic barriers are the most vulnerable, and ironically, within technology-based programs, are the least able to have that technology, because they can't afford it, by having the computers at home and so forth, and therefore are already disadvantaged. Clearly, differential fees start to have negative impacts on the lowest income within society and that's extremely problematic.

Mr Baird: If we said: "Free tuition, no problem. We'll even give you a 100% grant for your tuition. You only have to pay it back if you make more than $50,000 a year" — free up front, the whole thing, pay the whole shot, my colleagues in the third party will remember that.

Mr Poirier: Free tuition?

Mr Baird: Free tuition. You don't have to pay it back unless you make $50,000 a year. Free living expenses too. A $10,000-a-year grant and you don't have to pay it back unless you make $50,000 a year.

Mr David Caplan (Oriole): Which party are you in?

Mr Hashemi: There is a serious discussion to be had about tuition fee levels and what they should be and we're more than willing to participate in those discussions. We'd like to view post-secondary education in a broader circle, as a social service that's provided to people, that people have already paid for through their income tax system. So a lot of people have already paid their fees by paying income taxes, which fund postsecondary education.

Mr Baird: I'm the closer to my student days here than any other member of the House and there are very few students who have paid income tax at that stage. But I guess one of the things Queen's University has done with their MBA program is they've said: "Listen, the tuition is extremely high but you don't have to pay it until you earn more than $50,000 a year. If you leave and you don't make $50,000 a year, you never have to pay it back." The money is totally up front.

We're trying to look for some innovative ways to get more money into the post-secondary education system to

make a fundamental change for youth unemployment. We can do a whole host of things like we've done on co-op education, on the graduate transition tax credit, on other types of initiatives. But this is one; an income-contingent loan repayment plan; the federal Liberals are on side; the Ontario government is keen to negotiate a —

Mr Poirier: That's actually incorrect.

Mr Baird: Back before Mr Pettigrew was there, Mr Axworthy endorsed the idea.

Mr Poirier: Clearly, the federal Liberals are offside on income-contingent repayment plans. There was an announcement made by the federal Liberals just a few weeks ago by Pierre Pettigrew, the new minister. Clearly, the federal government has heard students and listened to our concerns and is starting to look towards debt reduction measures as opposed to —

Mr Baird: Sounds like a GST promise to me.

The Acting Chair: Thank you very much. If we can move on, please.

Mr Caplan: Very quickly, on Friday the Minister of Education made an announcement about student assistance. I was wondering if you've had a chance to digest that. What are your thoughts about what he announced? Is it going to be a help to students? Is that something that you think it's going to do?

Mr Poirier: Most definitely not. When we talk about the OSAP announcement that was made, one of our concerns is that the government is not providing sufficient funding for the OSAP program. As a result, over the last two years we've seen a tightening up of OSAP requirements so that they could maximize the number of students they get out of the least amount of money. What we found in this current announcement is that parents are going to be expected to contribute more, which doesn't take into effect the realities. The example they use is a $40,000 income with four children; that's before taxes. I think it's really unrealistic to think that family will be able to contribute to their children. As a result, that means the student is going to have a smaller OSAP entitlement and is going to have to try to find that funding from somewhere else.

The simple fact of the matter is that there is not sufficient OSAP available to cover the increasing needs of students. That doesn't even factor in the increases in tuition that will be announced this year. We've already heard from one institution that has made their announcements on tuition. That's Nipissing University, where students pay more than 52% of the costs of their education. They are going to increase fees by 5% and 15% for the faculty of education there.

Mr Caplan: I've been travelling around the province meeting with students and meeting with educators. We've launched the McGuinty Forum on Youth Opportunities. They're telling us that the cost of postsecondary education, university or college — they're getting sticker shock. They're saying, "Hey, I'm not even going to look at this because it is just way out of control." Would that kind of sentiment surprise you? I've got to tell you it's been universal across this province.

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Mr Poirier: That's precisely what we've been seeing. Interestingly enough, the Progressive Conservative Party, in a Blueprint for Learning, which they put forward just prior to their election, announced that their government would look for students to pay 25% of the operating costs of universities. We're already seeing this amount upwards of 30%, and 52% at Nipissing. But that sticker shock you're talking about is most definitely exactly what we're seeing from rising tuition fees, that many students will simply not look to postsecondary education at a time when it's most needed. That is for lower-income students.

Mr Caplan: Another broken promise, really, that was made in the last election regarding student assistance, tuition fees and the operating funds. I'm not surprised that young people are very cynical about this particular government.

Mr Peter Kormos (Welland-Thorold): First let me apologize for Mr Pouliot. He had to leave for a few minutes. His office asked me to come down and fill in. I read the summary and I scanned the body of it.

It's interesting because I just left public accounts, where I spent a day with Veronica Lacey, spending some time, among other things, with the contract she entered into with this government, her performance review contract, the one that says she is expected to pull $667 million out of secondary and elementary. There was some other neat stuff in there too. There was stuff about the goal to deregulate tuition fees here in Ontario, which has already begun. Friday the 13th, Part VI, occurred last week, because raising the threshold from $6,000 to $7,000 was in her performance review. She was told to save $80 million out of OSAP funding, and that saving amounts to exactly $80 million, raising the threshold from $6,000 to $7,000. Then the audacity of saying, "We're going to spend 6% more next year than we did this year," that's only a fraction of the $80 million they pulled out this year.

Mr Baird speaks of letting people go to school and then making them pay tuition if they earn over a certain amount. It sounds like he's an advocate of progressive income taxes, but you wouldn't know it in view of the 30% tax cut.

Let me put this to you, because I find myself and Mr Pouliot in agreement with you about your concerns. I'll tell you this like I've told so many other groups of students. I was born in 1952. I was the child of working-class immigrant parents, the first generation of my family that went to university, because a whole lot of people, generations before us, had paid taxes and worked hard to build public education to ensure that their kids or grandkids got to university, as I was able to.

My detractors will say it didn't do me much good. Let my detractors say what they will, but my fear when I visit Brock University, as I did on January 28, or U of T over here when Mr Bush got his honorary degree — I wasn't inside, I was outside — my concern is that the generation of young people in university today who are similarly, as I was, either working-class or even middle-class children or new Canadians, with immigrant parents like mine were,

may be the last generation of Ontarians to enjoy what should be a right to post-secondary education.

I think your challenge and all of ours is to talk to people, as you have, about the importance for all of us of investing in education at the elementary, secondary and postsecondary levels, that tax dollars spent on quality public education, from a fiscal point of view — and you point that out when you talk about the net returns on bucks spent — make money for our community. It's a difficult challenge because my friend talks about sticker shock and the government members like to talk about the sticker shock of taxes. I understand that, but I'm prepared to pay taxes to ensure that young people get quality postsecondary education. As I say, our job is to make sure people understand that there is a very selfish motive in my doing that. It's not altruism; it's in my best interests to pay taxes to fund postsecondary education. I think that's the word we've got to spread.

I know I didn't ask you a question, I engaged in a little bit of a polemic, but heck, I'm only in here for 45 minutes or so this afternoon. Thank you for the brief and the submission and I encourage you. I know the work you've been doing across the country.

The Acting Chair: The time has elapsed. Thanks very much for your presentation. We've certainly appreciated hearing from you people.

GLOBAL RYAN'S PET FOOD CO

The Acting Chair: The next presenter is Global Ryan's Pet Food Co, Jim Walker. Welcome to the committee.

Mr Jim Walker: When I was invited to address you today, I took a long time to consider the topics I'd like to cover. Overall, I must say I'm pleased with many of the government initiatives over the past few years, especially when it comes to general business practices and the economic growth in Ontario as it affects small and medium businesses. Some specific initiatives that many of my business counterparts are pleased with include the personal income tax cut, the removal of yearly corporate incorporation fees, and enterprise centres which have been set up for small business that have started to take steps towards increasing the access to capital.

Many of the more positive initiatives have, however, fallen short of the intended mark or have been hamstrung by overriding federal programs. For example, the personal income tax cut benefits to individual consumers have been reversed by increases in federal Canadian pension plan contributions. A slight anecdote: Interestingly enough, as you can tell by the title of where I come from, I'm from the pet food industry. The initial cuts that were proposed to provincial income tax equalled approximately the amount it would take for a family to go out and buy themselves a family pet and support that family pet with food and accessories for a year. Unfortunately, with increases in the Canadian pension plan, that's been cut back and fewer people may be buying pets.

An example of a program that I feel has missed its mark with regard to small and medium businesses is their access to growth capital. Even though enterprise centres can help, access to bank financing still largely depends on whom you know and often other personal contacts at financial institutions. I was fortunate, not too many years ago, to have had access to the provincially sponsored new ventures loan program. I feel reinstating this program would be very helpful to small business and job creation in Ontario.

Some other areas of concern from my standpoint include actual value assessment and its effect on greater Toronto area retail stores, and commercial taxes specifically; increases in the Workers' Compensation Board rates — my business category has had a 15% increase alone this year; and retail sales tax late payment penalties, which I feel are rather onerous. I feel penalties should be a percentage of the required payment, not just a flat fee of $1,000. Also, under certain circumstances, special late payment allowances should be made available for PST remittances.

In my experience, we recently purchased a bankrupt business and saved 40 jobs here in Ontario. In the first few months, you can understand, without a lot of access to capital it was a challenge for us to maintain those 40 jobs and also maintain our on-time payments. We were fortunate enough to do so, but it was very difficult from a small businessman's standpoint.

Finally, I'd like to talk about a concern which for the most part falls under federal jurisdiction. However, I feel it needs provincial initiative to ensure that a level playing field exists. I speak of unfair competition and predatory pricing practices employed by many large American superstores. I believe that competition is an excellent way to bring out the best in many of our enterprises in Ontario. I also feel that we should attract and develop business involvement from outside of Canada.

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However, when the business attracted predatory pricing practices to eliminate local Canadian competition and force Ontario residents into the unemployment lines, the Ontario government must take some action. The federal competition regulation body has formally acted to maintain level business playing fields only three times since their mandate began. If we cannot rely on the federal government for support, a provincial watchdog needs to be set up and that provincial watchdog needs to be given the teeth to support healthy competition, not unfair predatory business practices.

I thank you for the opportunity today, though brief it was, to present some of the concerns that small and medium Canadian business has, especially with regard to the policies we've seen in the last few years here in Ontario.

The Acting Chair: Thank you very much for your presentation. We'll start with the Liberals.

Mr Phillips: I appreciate your being here and sharing your thoughts with us. To deal with your last issue first, because it does look like these large new types, not new but fairly new, are having a fairly profound impact on

retailing, I think it was K mart who suggested that the reason they merged with Zellers was the Wal-Mart situation, if I'm not mistaken, and Home Depot and Price Club Costco are moving in very quickly, expanding very quickly. Are those three examples that you would be thinking of?

Mr Walker: Those would be three examples. Also, in my industry there's an American superstore that just came in called Petsmart, which is another 20,000-square-foot category killer.

Mr Phillips: What specifically do you think you would be recommending should be done?

Mr Walker: From my standpoint, it's very difficult to provide a general overlay of what would suffice in both the Wal-Mart-type concerns of the world, the Home Depot types and how we have trouble here in the Canadian pet food industry. From my standpoint, we are required to deal with, just because of longevity of products, a number of American-made foods and accessories which, although there certainly isn't any hard and fast evidence to this allegation, many of the American superstores seem to be getting into their little warehouse stores at a cost far and away below anything we can even begin to achieve.

I represent a 50-store chain and we purchase pretty much at the best price you're going to find, and yet despite that many of the products in the superstores are sold sometimes 20%, 30% or 40% on regular, everyday prices below what we can even buy the products for. We have to deal with the Canadian distributors, and in some cases they're getting their shipments directly from the United States, although many of the Canadian distributors are paid a distribution fee for that, if you will. That's our biggest problem and I really can't begin today to tell you how to correct that. All I know is that when many of my customers on certain products can go to the superstore and buy it cheaper than I can buy it from the distributor, there's a problem and it's not just in the way I negotiate my deals.

Mr Phillips: I'm interested in that. I always assumed there were anti-dumping laws that would protect against something like that.

Mr Walker: With respect, this is a problem we've experienced now for about a year and a half. When the problem first came up, I went to Bill Saunderson, the Minister of Economic Development at the time, because he was a personal friend and a family friend, and asked what would be best to help us out in this regard. They did point us in the direction of the federal government and we tried and do as much as we could from our standpoint as a retailer. Unfortunately, we were told that unless the complaint could come from a Canadian food manufacturer, we had no standing with them.

Mr Phillips: You suggested that the new ventures program was something that helped get you launched, if I heard you right.

Mr Walker: Yes.

Mr Phillips: Is access to capital for new ventures like you were still a significant problem, and are you suggesting there are labour-sponsored venture capital corporations — I think the credit unions have been given a lot more leeway in the financial community; the banks are telling us they're very keen on dealing with small business. Is it still, in your experience, a problem for small business — startup business I guess you're suggesting — to access capital?

Mr Walker: Yes, fortunately I was able to make use of some of the funds that were available at the time. Part of our business is also a franchise organization, so I deal with a number of people who are coming to our organization on a daily basis looking to start their own business, and franchising can be one of the more successful ways to do it. Many of these people struggle with getting financing, because what it comes down to more — in a lot of cases in the new ventures loan program I believe $15,000 was available to me. I had to take a number of different daytime courses and I had to propose a solid business plan. But a lot of the people who are coming to us now are having to rely on their own personal retirement savings to either leverage any loan from a bank or use it place of a loan. So yes, it has been a problem and continues to be a problem.

It's very difficult as well, from a small business's standpoint, to make the next step to a medium-sized business. Quite often you'll find that the banks have given some small bit of money, leveraged on some of the savings a person may have, but as they go to improve or increase the business they're in, or grow it, it becomes much more difficult because the loans they've already received have been secured against the existing assets. So yes, it is a problem.

Mr Phillips: A strange world in that in some respects the faster your business is growing, the more difficult it is to finance it; and the slower it is, the easier it is because you don't have the same accounts payable.

Mr Walker: Sometimes, yes.

Mr Phillips: I gather you're in mainly retailing. Do you do any manufacturing of pet foods or are you all retail?

Mr Walker: No, we do some co-packing, but mostly retailing.

Mr Phillips: It was I think quite healthy in 1997, but I guess you're saying to us that within an overall healthy environment you can see some significant winners and losers. If I'm reading you right, I think you're raising the flag about smaller retailers facing some fairly tough competition from the — you call them category killers, do you?

Mr Walker: Yes, they've been referred to as category killers. Interestingly enough, the more healthy the retail sector appears, of course, the more competition it's going to attract, the more interest there's going to be in starting up new ventures which are similar or bring some other new, innovative ideas to the same business. In our case, there are and have been a number of small chains in Ontario with 10, 20, 30 stores, some as large as 50 or 100 or even 200, and all of them have enjoyed healthy competition back and forth in a lot of different ways and we've had to learn a lot about dealing with the public from a

retail standpoint. But you're very accurate that, when it comes to a category killer and with respect to some of the predatory pricing practices I feel they are displaying, that makes it very difficult for a small Ontario-based business, quite frankly in some cases a main-street business, to deal with with the supersized large shopping outlets that appear on the outskirts of the larger towns.

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Mr Kormos: I'm sorry I missed some of Mr Phillips's conversation with you. I was interested by your company. Charlie the beagle has been dead for three and a half years now, so it's been that long since I've bought pet food. Charlie was as faithful and likeable a companion as one could ever find, especially around here. I'm not familiar with Global Ryan's Pet Food, but you talked about resurrecting a company that had been bankrupted, with 40 employees, 40 jobs. Flesh that out a little bit.

Mr Walker: Global Pet Foods has been in business for about 22 years. Of course, I didn't start it. But at the same time, another small pet food chain called Ryan's Pet Foods, being about 15 years old, started by a gentleman with the last name of Ryan, went through a number of different ownership scenarios. The last ownership group had some trouble and went bankrupt in 1997. At that point we were able to go in and use some of the techniques we use, which are very different in distribution and retail than they were using, which caused their problems in the first place. We were able to acquire some of the assets of the bankrupt company and keep on the employees and maintain their business, hence the joint Global Ryan's company.

Mr Kormos: Perhaps you were a little facetious but not entirely when you talked about how the provincial tax break was negated by increases in federal deductions. I've got to tell you I'm from down in Niagara region, Welland. We have one of the highest unemployment levels across Niagara region and all of Ontario, well into the double digits. We have really unstable conditions in terms of industry. There have been major layoffs at GM, for instance. The retailers down there — and again, I'm talking more about the kind of folks you're talking about rather than — what do you call them? — the box stores.

Mr Walker: Yes, the big box stores.

Mr Kormos: The Home Depots and the Wal-Marts and those sorts. They're almost like the gas bar phenomenon, because they come on strong and create the illusion of economies for the consumer, but once everybody else is gone, you end up finding that the prices really aren't that competitive other than for the loss leader. That has been my impression. I don't know if that's an observation you make.

Mr Walker: That's very correct in our business too.

Mr Kormos: We bought into that nutty psychology that somehow bigger is better.

Mr Walker: Fortunately, we haven't completely bought into it yet or we wouldn't be here talking to you today. But none the less, yes.

Mr Kormos: I've got to leave time for Mr Pouliot or else he'll be mad at me, and I wouldn't want that to happen.

Mr Pouliot: Thank you, Mr Kormos. Mr Walker, I heard you mention some concern vis-à-vis the Canada pension plan, the CPP. Your client group, it seems, would be the last one. I wrote down here, "Does not apply," because you talked about the CPP, and I see that you're with a pet food company, in fact 50 franchises, is it?

Mr Walker: A combination of franchise and corporation.

Mr Pouliot: A combination. I thank you very kindly. Would you like to focus and help us? How is it that the federal Liberals in this instance — this is a smaller House, you see, this is a provincial Legislature. We have very little influence over the federal Liberals. For me, it's almost a curse on both their houses, because it's tax and spend, tax and spend, and we see escalating prices. In specifics, what is it you don't like about the CPP? How is it impacting you?

Mr Walker: It appears that many of the gains that would have been made by the provincial tax cut, which, when I referred to the anecdote of actually having enough extra money available to buy another family pet, from the estimates I had seen were somewhere in the vicinity of $1,000-odd for a family per year, have been to a large degree, or appear to be, offset by any increases we're going to have to pay as consumers in the Canada pension plan. I know that certainly is a federal jurisdiction, but it's a comment I was making, that maybe part of the intent of the government's plan to reduce the tax and give the consumer more money to spend missed the mark because it was overshadowed or hamstrung, as I said, by a federal program.

Mr Pouliot: So, less money, fewer pets. I want to go to the tax cut, the incentive to indulge loved ones. If you make $25,000 a year, when all is said and done, the full 30% implemented, you would save about $400 per year in taxes. You're well on your way to Petville. If you make $250,000 a year, which is 10 times 25, well, you don't get 10 times the tax cut, because it's progressive; you get 30 times the tax cut. Your point is well taken, but if there were a redistribution of the same tax cut — because if you made $250,000 or $25,000, a person can only have so many pets, right? But if more of us had the luxury and the ability and the desire, of course, to have pets, then your business would grow.

One final question. You've touched on economy of scale and you've given us some examples. Is the state of the Canadian dollar a factor in your business?

Mr Walker: It has recently become a bit of a factor. However, at the same time, recognize that all of the different retail competitors we have are also experiencing the same concern. Some of the American-based foods have increased in price because of the Canadian dollar, but if they've increased in price to us, they've increased to everybody.

Mr Jim Brown: It's nice to hear from a smaller and medium-sized enterprise. This morning we had the Bank

of Nova Scotia here, and yesterday we had the Canadian Bankers Association here. They were all doing a love-in with small and medium-sized enterprises. They're born-again small business lenders, I guess. Before this reincarnation, I had a small manufacturing company, and I know the trials and tribulations of trying to raise capital for not only startup but expansion. A lot of my friends who had companies expressed the same kind of thing you did.

The federal Liberals control the Bank Act, and there are only six of them basically, so there's very limited supply and very limited competition. You're expressing the same problem with predatory pricing. Again, the Competition Act is the federal Liberals. Do you ever get the feeling that the federal Liberals are big business and the big guys and they don't really care about the little guy who is creating all the jobs? Little business creates probably 85% or 90% of all new jobs. They're the people who also hire youth, who take a chance on people with less experience. Do you ever get that beleaguered? I know I did.

Second, what do we do about access to capital? It is a serious problem, you said, and I agree with you. What do you think we ought to do?

Mr Walker: On your first question, with regard to the federal government, certainly a lot of mention is made all the time about small business and medium-sized business and trying to help them. They have had some programs which have worked well in my business industry. For example, there's a program whereby if you have been let go or laid off or, as they call it, given the golden handshake, they have some allowances for you to collect unemployment at the same time as starting your own business and for the first year to collect unemployment even though you're starting up your own business. That has helped in some cases for us.

My point was more towards the same kind of programs or maybe proposing the same kind of programs at the provincial level. Access to capital sometimes, as you comment, with only six banks being available, can be difficult. At the same time, the new ventures loan program, which I was able to enjoy, worked tremendously well to get me off the ground. It didn't require a lot, was not a huge program where we were asking for $200,000; it had a ceiling of $15,000. I have no way of knowing this — maybe you can answer the question for me — was the new ventures loan program put on the shelf because a lot of the small businesses weren't paying it back? Were there a lot of problems with that or was it put away for a reason that I don't know about?

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Mr Jim Brown: I don't know. I really don't know the answer to that, but if I can follow up, you and the franchisees, when you go for capital, I guess you approach the bank and that's it? What about credit unions — is there any play there? — or labour-sponsored investment funds, the funds that the feds give a humongous tax break to and then the labour-sponsored investment fund plows it into treasury bills and doesn't give it to the companies that it was intended for?

They're sitting on hundreds of millions of dollars. Mr Pouliot is affirming this. Individual investors make a killing on the stocks of these things but the money doesn't get out to small and medium-sized enterprises. They probably have invested 10%, 20% of the total funds that they've taken in, and the taxpayers have really contributed in tax deductibility to these funds and the profitability of these funds.

Did any of your franchisees get any money from or even think of going to labour-sponsored investments funds or the trust companies? You must be advising them, so do you just basically say, "Look, go see the bank," and that's it? I feel that's the only source, frankly.

Mr Walker: I'd like to answer it in two different ways. From the standpoint of a franchisee, when I started off — and I can only speak to when I started off, because I actually was a franchisee before I got involved in running the entire business — we had trouble and we weren't able to take advantage of some of the trust companies for commercial loans because they weren't allowed to when we first got into it. I understand there has been some movement in that area, but none the less it wasn't there and it hasn't been there for a long time. For an individual franchisee to approach one of the labour-sponsored funds for $15,000, I'm not sure they'd even talk to him.

Mr Jim Brown: Forget it.

Mr Walker: That is my take on the first part of your question.

The second part, from a medium-sized company's standpoint, we are also involved with a public company. We have some connections with a public company with regard to our ownership structure. Our public company is working on a private placement right now. However, every time they approach one of these labour-sponsored funds, they're able to give their presentation and they work through it, but there seems to be a long delay between their approaching the labour-sponsored fund and getting an answer back. I met one of them, for example, as part of it probably six months ago, and we still haven't heard from them, quite frankly.

Mr Jim Brown: But you know what? They don't really want to give you the money, they really truly don't, because they make more money not giving it to you because they've got better investments with no risk and they would consider you a risk. They don't want to give it to you.

Part of your company is a public company. I was involved in a public company and, I'm telling you, the red tape and the bureaucracy and the legal cost and the amount of stuff you have to go through to get on a public exchange or the over-the-counter market, what a joke. How can a little Canadian business ever become big? It's almost as if the decks are stacked. American companies can come in, easy, but if you're Canadian, you're up against it. What are your experiences? With the public marketplace and the regulatory bodies it's incredible. It just costs a fortune. No small guy can do it.

Mr Walker: I agree. Fortunately, because of my position with regard to the operations of my company, my

position is not involved in the regulatory side. But at the same point, the people who are responsible at the public company that we're involved with for this have tremendous amounts of paperwork, tremendous amounts of red tape.

I'll give you a prime example. We became involved with the public company about six months ago. This is a good thing from an employment standpoint, but we went from having an accounting department of one person to now, because of the various filings that have to be done, an accounting department of four.

Mr Jim Brown: You're lucky.

The Acting Chair: Thank you very much for your presentation. We've exhausted the time. We appreciate your presentation today.

SERVICE EMPLOYEES INTERNATIONAL UNION

The Acting Chair: The next presenter we're calling for is the Service Employees International Union, Corey Vermey. You have 30 minutes to use as you see fit.

Mr Corey Vermey: Thank you for this opportunity to speak before the committee. I trust the Chair will politely nudge me as I reach the 15-minute point so that I leave as much time for questions of the committee members as is possible.

The Service Employees International Union, or SEIU, has not annually arrived at the Legislature to make submission to government on the fiscal choices, goals or priorities in the budgeting process. We do feel particularly of late that it may be incumbent upon us to do this on a regular basis, as we feel that the input of our members would hopefully be of benefit to the government.

By way of introduction, given that we haven't had frequent exchanges with this committee, SEIU is the second-largest and a predominantly public sector union in North America. In Ontario we represent some 43,000 members, and again predominantly in the public sector and dominantly females in the health care sector, both the acute care hospital sector and the facility-based long-term-care sector. The numbers respectively are 26,000 in hospital and 17,000 in long-term care.

We certainly have occasion to take a view of the recent changes, reforms, restructuring that has been under way in the health care system in Ontario. The focus of our submission today is in regard to what we trust the budget will reflect, namely, the concerns, particularly from the vantage point of women and of the elderly, in regard to the health care priorities of the current government.

We've had occasion to review the submission by the Ontario Federation of Labour earlier this month and we certainly endorse that submission as an affiliate of that body and leave the broader context of fiscal and economic policy to be addressed by that submission.

Before addressing what we believe to be two overarching themes to guide particularly the current Minister of Health as well as her government in addressing health issues in this province, we should say from the outset that we see no contradiction and no insurmountable difference between advocating the interests of our members, who have historically been the lowest-paid care providers in the health care system, and advocating for the quality of care that patients, residents and clients demand in this province. We see no fundamental contradiction in that respect. We believe that to the extent that the quality of care given residents of this province is funded adequately by government, then the terms and conditions of employment of workers in that sector will at least be comparable with other sectors in both the private sector and public sector.

Nor do we stand in the road of restructuring. We have, particularly through our experiences in the United States in a health care system that is probably the leading drain on national expenditures of a developed country, running at some 11%, if not 12%, of gross domestic product, fed by the intrusion of for-profit health care to the extent that the previous speaker speaks of category killers in the United States — category killers have entered into the hospital in the acute care sector, such as Columbia HCA, and have wrought considerable devastation, we would submit, in a health insurance system that barely covers three quarters of the nation's population south of the border.

Our membership within SEIU and some 650,000 members in the United States who are employed in health care know well of the broad parameters of restructuring. This has served us well in Canada, not only in this province but in other provinces such as Manitoba and Saskatchewan, in dealing with the broad reconfiguration of the health care system.

As we've noted, we have a number of guiding principles in terms of our participation in restructuring, namely, our participation being predicated on adherence to the Canada Health Act; our participation being predicated upon reinvestment of the savings in the acute care sector into the community, if that is the direction by policy choice; our participation being predicated upon a humane and negotiated human resource plan that deals with the obvious effects upon caregivers and the staffs in acute-care hospitals; our participation again predicated upon the entirety or totality of the health care system being considered, including primary care reform, when engaging in restructuring; and finally, our participation predicated upon repatriation of publicly funded services to the extent that those services have been contracted for to for-profit providers.

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We arrived this afternoon to be of particular assistance to the government members of this committee. We understand that they are in search of messages that will appeal to women and seniors and have recently decided that this is a more appropriate communications tack to take. We certainly believe they are properly concerned about particularly the perception of the current government's health policies from the perspective of women and the elderly.

It's clear that women have a particular relationship to the health care system, being the predominant providers.

With probably the sole exception of the physician corps within the health system, the providers are predominantly women, four out of five. The health sector is the largest employer of women in the provincial and national economies. The effects of restructuring fall disproportionately, with regard to paid employment, upon women. Equally, the restructuring and placement of burden on informal care providers fall again on women.

Women and particularly the elderly share a community solidarity, particularly in terms of long-term care. The overwhelming majority of the workforce caring for our elderly in facility-based care are women, and increasingly women are caring for our elderly in home-based care. So both as providers and consumers, we wish to address this issue of health care reform.

Before turning to the three principal sectors of reform — the acute care, long-term-care and home care sectors — we wish to simply identify to this committee the principal themes or recommendations we place before you and leave the text and justification for the members of the committee to review at your leisure and convenience.

In terms of the acute care sector, of course, there is little doubt that at least the public perception is that this sector of health care is in deep crisis. There have been growing accounts within the press and growing commentary throughout our communities about the devastation of the initial funding cuts to acute care sectors, and then subsequently the activity of the Health Services Restructuring Commission and the word of closure of some 30 hospitals in this province.

What we recommend to this committee for incorporation within the budget is assurance that those hospitals that have survived the commission's restructuring be provided a multi-year timetable and assurance of enhanced funding to cope with the intensity of service that they are required to provide.

Equally, with regard to labour adjustment in this sector, we can only suggest to this committee that the thousands of workers who have received layoff notices or reductions in the hours of work they perform in acute care hospitals, although they have received an apology from the Premier for being compared to hula hoop workers, were only further insulted when the current government withdrew funding from the Health Sector Training and Adjustment Panel, a very important component in any rational and humane redeployment of health care providers flowing with the policy choices to community, if not in fact home care, settings.

At present, it would appear that with the funding cut to HSTAP, at best, if other health care employers so desire, they may contact the registry for eligible employees. In the end, the acute care health care provider is given severance funded 85% by the province and left to the vagaries of the labour market in terms of their next opportunity for employment.

This stands in rather stark contrast to the recent progress with regard to primary care reform, which has yet to be initiated. Certainly the recent negotiations between the province and the Ontario Medical Association do not give cause for celebration to health care workers, who have not seen wage increases and in fact see intensification of their work and growing stress, and in numerous instances have received layoff notices or, if not, a reduction in hours of work, and have a perception that they indeed have borne the brunt of the government's policies with regard to health care restructuring.

The second sector we wish to draw the committee's attention to is the long-term-care sector. Perhaps from the absence of attention by this current government, this sector is not as yet in crisis, but certainly would appear to be headed in that direction.

Various recent reports, including the Health Services Restructuring Commission's interim planning guidelines, as well as surveys by the principal employer associations with long-term care — the Ontario Nursing Home Association and the Ontario Association of Non-Profit Homes and Services for Seniors — have all identified not only an existing need but a substantial need within five years in terms of capacity in the system.

We wish to emphasize that although the need for additional capacity in long-term care is now generally acknowledged, what often is not acknowledged is the need for additional funding to the current system in addition to what was previously announced, apart from the 1997 budget, in the June announcement by the then minister, Mr Wilson, of $100 million. Even the employer associations in this sector acknowledge that $100 million of enhancement funding into long-term care was but an initial drop in the bucket to a system that has been greatly underfunded, if not chronically then more recently, with the repeal of the legislative requirement to staff at 2.25 hours of nursing and personal care per resident per day and the withdrawal of red-circling for municipal homes for the aged which staff in excess of that. A very serious quality issue is arising in those facilities as well that must be addressed by enhancement funding prior to the addition of capacity to the system.

The Ministry of Health's own classification system that is the basis for funding long-term-care facilities reveals that the intensity of care has only increased in long-term-care facilities. Since 1992, when residents have been classified based on the level of care, it is the heavier categories of care in which the majority of residents — both absolute and relative numbers are falling in our long-term-care facilities.

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We call upon this committee to urge the Minister of Finance to inject additional funding to maintain the current standards of care prior to expanding capacity, but notwithstanding, to initiate a multi-year plan for the enhancement of capacity up to 30% of existing stock in long-term-care beds.

We call on the government to restore the 2.25 hours per resident per day requirement to ensure that residents in these facilities are adequately cared for.

In particular, we urge the Minister of Finance to direct the Ministry of Health to increase and to also fund for the

Ministry of Health an increase in the raw food budget for this sector

Finally, we would urge, in light of those recommendations, ongoing study and evaluation, with the involvement of all the principal stakeholders, to ensure that the funding for long-term-care facilities continues to keep pace with the increased demand for care in this sector, and that any allocation of additional bed capacity that is contemplated be considered in consultation with the major stakeholders and after an opportunity for public consultation on a broad basis as to the proprietary nature of the facilities.

Finally, with respect to the home care sector, our union in particular is of the view that this is the sector within health care that is in the most immediate fear of falling into crisis. We have characterized home care as the black hole of health care reform. Although my astrophysics is not strong, we are concerned that home care, at both the national and provincial levels, is not understood. It's not understood, it's not studied and it has not proven to be cost-effective. Many of the studies reveal it to be rather an enhancement or add-on to institutional care or long-term care rather than a substitute for such care.

There is of course a broad perception that it is a good thing, and we don't dispute that initially, but there is little empirical or evidence-driven study of home care, and what we are most immediately concerned with is that the one attraction of home care is the current significantly lower cost of providing care driven by the substandard wages paid to the care providers. While we appreciate that quality of care may well include discretion as to the location in which a patient or client receives that care, and certainly the home would be a quality environment in most instances, it may not be in all instances. We believe, particularly in light of the current government's policies in terms of the selection of care provider agencies, that a vicious spiral downward is being set in play where existing not-for-profit agencies will be forced into competition again with the big category killers from the United States, Olsten temporary agency, American Home Patient and others, and they will be competing on the basis of the agency most able to depress wages and working conditions for predominantly women working part-time hours, required to travel to a variety of locations, who will not have any regular schedule.

We have already begun to see, not only in this province in the Comcare strike in Kingston but also in Manitoba and in Nova Scotia, labour disputes over the privatization of home care. In this province that would not be a prospect with regard to facility-based care, but given different statutory regimes, not least of which will be with regard to labour relations but equally with regard to pay equity, we fear considerably for the pressures that will be placed on the home care component. As much as it is vaunted as the recipe for successful health care reform, we see that it will fail this province miserably with regard to issues of equity and issues of quality. It is issues of equity and of quality that are of immediate and priority concern for women and the elderly. If this current government is indeed truly seeking not only messages but policies that are of concern and interest to women and the elderly, it needs to very carefully consider home care from the perspectives that are framed by equity and quality.

Our union has fairly recently won a significant victory in a decision by Mr Justice O'Leary in regard to schedule J of Bill 26, and we trust that the current government, in appealing to women in particular but also to the elderly on issues of equity and quality, will appropriately fund the significance and ramifications of the O'Leary decision with regard to the proxy pay equity comparisons in the broader public sector. It has been suggested that the O'Leary decision will affect some 100,000 of the lowest-paid women working in the broader public sector, principally as care providers in the health care and community services sector.

I trust I have left enough time for questions from the committee members.

The Acting Chair: Yes, about two minutes per caucus. We'll start with the NDP.

Mr Pouliot: Thank you for an excellent presentation indeed. You represent some 43,000 public sector workers in the province of Ontario. This government, in my opinion, declared war on education the very first day they took office, but that did not suffice. In the appetite of the revolution, they went to the largest expenditure sector of all, that of health. Your tone cautions the committee, in anticipation of more privatization. You've called them "category killers," people who take over and hire cheaper, often less experienced workers. You're right, the most vulnerable, women and the elderly, could be left holding the bag. You've also mentioned successive cutbacks that make the ability to cope more difficult.

Yet I look at your presentation on page 7 and I see that there is a group of people involved in the delivery: doctors. It says here that the doctors will surpass the target amount by some $85 million in 1997-98. It seems that if you're an educator they'll wrestle you to the ground, if you are a health worker you'll get wrestled to the ground, but if you're a doctor you get wrestled to the ceiling.

I don't have it here, but if you were to look at the overspending on the drug programs, there's a close tie here. You probably would exceed the amount allocated, the target amount, because those are open-ended programs; they pay piecemeal. So there seems to be some contradiction. Would you care to address it? I see that with the doctors there is no shortage of funding here, and there are, what, 21,000, 22,000, 22,500 licensed physicians in the province, yet the thousands of health care workers have not had an increase. How do you cope with that? We're talking about health here, we're talking about service providers, be it, with respect, a doctor or be it a nurse or be it someone who works in the system.

The Acting Chair: Sir, I'd like to have you address that answer, but Mr Pouliot used up the time. I think that's unfortunate. I will give a part of a minute for the answer, but be quick.

Mr Vermey: Very quickly, I think the answer is the incentive or funding formula or structure in place. For physicians, obviously it's predominantly fee for service.

It's essentially piecework, if physicians would not object to being characterized as such. But it is a form of payment that is noted for enhancing utilization, as opposed to dealing in a systemic way with utilization. I think the same can be said for drug benefits, where the costs, as well as for private sector lab testing, tend to be driven by fee for service or incentive-structured.

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Mr Baird: Thank you very much for your presentation. Given that we have less than two minutes, maybe I'll just make a comment. Mr Pouliot mentioned your tone. I appreciate that you've been very constructive. There's a lot of information here, and it certainly is incumbent upon us all to reflect on what you've had to say and give it some thought.

I met with your union on a number of occasions on various issues when I was assistant to the Minister of Labour. It was very constructive. Often there will be strong disagreements, but on many issues your union was the first one where I was able to get an appreciation for what the viewpoint was because of the constructive approach they took.

The one thing I took very heavily from what you presented on long-term care was the quality of the existing beds and the need for new beds. In my own community, I visited a long-term-care facility the better part of a year ago. You see one nurse's aide feeding lunch to six seniors with dementia and it's a very disturbing prospect.

The inequities in the system, how a publicly funded long-term-care facility down the road was getting significantly more — a lot of my colleagues were very concerned about that inequity and we pushed, and there was a $100-million reinvestment. That facility in my riding, for example, got an extra $400,000 a year added to their base budget to deal with that, because the brunt too often was falling on the staff and they were simply not able to cope any longer. The quality of the existing care is certainly of great concern to all of us. We need more long-term-care beds, particularly in my part of the province, but the quality of the existing care is important and that's got to be an area for reinvestment. Just in my community this morning the minister and I announced $81 million in new spending for health care. Long-term care has got to be a priority, and of course home care, as you discussed.

I appreciate your comments and I'll certainly take the time to reflect on them.

Mr Vermey: Just to complement the remarks of the committee member, I think it's appropriate to suggest that the model for home care funding should at best reflect the model currently in place for long-term-care funding; namely, that the funding is driven by the assessed needs of the resident or the client and there is an undertaking that any moneys not expended for the provision of nursing and personal care or raw food are remitted back to the province. There is no take, as it were, for the agency or the facility from the very essential service, which is nursing and personal care. Accommodation is the area in which, if efficiencies are achieved, the operator of that facility may retain the surplus, as it were.

Mr Phillips: The Ontario Hospital Association was in, I think yesterday, with a different message than they had in previous years, in my opinion raising some significant concerns about the direction of health care in the province; a feeling, if I read between the lines, not unlike your caution today on community-based care or home-based care, of an assumption that that's far more cost-effective and can be done less expensively than in other settings. If I read your comments properly, you're warning the committee not to assume that this is a very inexpensive way of providing service, that it may in some cases be better service but it's not necessarily going to be more efficient.

Also you're raising concerns that I guess all of us share, which is that if we ignore that many will need and do need care not in the home but in some institution where they can be provided with ongoing care, if we ignore that and don't provide the investment now, we're going to wake up somewhere down the road with a significant problem on our hands.

The Acting Chair: That's exhausted our time. Thanks for your presentation. It's appreciated very much.

FEDERATION OF WOMEN TEACHERS' ASSOCIATIONS OF ONTARIO

The Acting Chair: I call upon the Federation of Women Teachers' Associations of Ontario.

Ms Maret Sädem-Thompson: Good afternoon. I'm Maret Sädem-Thompson, president of the Federation of Women Teachers' Associations of Ontario. My colleague Florence Keillor is the first vice-president of the FWTAO. Together we represent the 41,000 women who teach in Ontario's elementary public schools.

For 80 years we have advocated for students, for women and for children. We are here to make this presentation to the standing committee on finance and economic affairs for two important reasons. First, it is important to offer our views and expertise on the choices this government should make to benefit all of the people — all of the people — of this province. Second, Bill 160 made it clear that the provincial government will control the education budget, so it is appropriate for us to bring our comments to you at this time.

The government plans to take two thirds of a billion dollars out of the education budget. This will not improve education in Ontario. You cannot improve a system by taking money out of it. A better education for Ontario's children requires decisions that guarantee more money for education, more resources, and more of a commitment from everyone.

Many of the initiatives of the last few years in Ontario are more concerned with economy than they are with citizens in our society. As a society, we must value the children for who they are now. Our education system should give all children every opportunity to pursue their education to the best of their abilities.

When choosing between political and financial options, we urge this government to ensure that children have the best conditions in schools, in their families and in their

communities. A high-quality education system is much more than a measurement of test results and testing. We know from years of research and experience that quality education requires individual solutions as well as systemic solutions.

In a quality education system, teachers, parents, concerned citizens and politicians like yourselves work together on behalf of our children. Our budget proposal for a truly high-quality education system requires more money for education, for resources and for a commitment from others, everyone in Ontario.

Because a quality education system is not static, we know our students' needs are ever-changing. As our students' needs change, so too must the curriculum. Our quality curriculum development and delivery is not just about preparation for the workforce; more importantly, it is about preparation for quality citizenship. FWTAO believes that curriculum developed by the lowest-tendered bidder is not the way to achieve quality education. Curriculum development by corporations does not reflect the well-rounded expectations of a civic society. Our students and our education system must not be for sale.

Curriculum is the foundation of learning. Learning to read is the cornerstone of that foundation. The earlier the cornerstone is laid, the firmer that foundation. FWTAO believes we must teach reading well, in small classes and with a variety of quality resources. Well-prepared teachers in supportive communities are essential to literacy.

For children and adults to learn, curriculum must go beyond the classroom. Most important, it must be relevant. FWTAO believes the quality educational programming on TVOntario is an invaluable asset to Ontario's children and to their education.

We believe that relevant curriculum is inclusive and representative of our diverse population.

FWTAO believes that relevant curriculum affords all children, and particularly girls, the self-confidence and the skills and opportunities they need to use technology.

The components of a quality education are reduced when class sizes increase. Bill 160 explicitly allows school boards to ask for an exemption to have higher average class sizes. FWTAO supports President Clinton's initiative to reduce class sizes in grades 1 to 3 to a nationwide average of 18. FWTAO supports this initiative because, unlike the provisions of Bill 160, Clinton's goal is substantiated by research and reflects a significant financial commitment to children and to quality education.

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Research shows that lower class size improves achievement overall and influences equity. It affords teachers more time to identify learners' problems. Learning problems identified at an early age are much more likely to be remediated.

Quality education is about innovative teaching strategies. Innovation is much more likely in smaller classes. Reduced class sizes of 18 students in grades 1 to 3 can be achieved in Ontario at a cost of $240 million. This is less than 5% of the tax cut this government allocated for its first term in office. Reducing class size is a small investment for a lifetime opportunity for our students.

Another cornerstone of a firm foundation for quality education is programming for the early years. Research in the Perry Preschool Project has been replicated repeatedly. You are no stranger to the facts on page 12 that show that for every $1 that we spend, we save $7 in costs of dropouts, costs of adult education, costs of crime, costs of welfare. All of those are savings to the government from an investment in our youth. Savings on social costs for adults can be realized by support for early-years education.

Prevention is more effective and less costly than remediation. FWTAO believes this government must put resources into ensuring that our children are born strong and healthy and remain that way. Healthy children are the responsibility of parents, of communities and of society as a whole.

FWTAO believes this government must use common sense and the common good done for all society in Ontario by expanding early childhood education programs. Our economic trading partner is moving forward, European countries are miles ahead, while the government in Ontario cut junior kindergarten funding by $58 million in 1996 with the result, as you can see on page 14, that junior kindergarten classes in 25 school board were cut. Other school boards reduced their JK programs to all day, every other day programs from half day, every day programs for financial savings.

FWTAO recommends that the yet-to-be-announced funding formula include funding for junior kindergarten as a core program everywhere in this province.

Ms Florence Keillor: I want to talk to you first of all about the importance of parent involvement. Parent involvement in a child's education is beneficial to student achievement. Parents can participate at the school board level, at the school level and at the classroom level, and with their own children individually. The education system should make it possible for all parents to participate at all levels.

The government has made it more difficult for parents to participate at the school board level by greatly increasing the geographic size of boards and decreasing the elected representation on boards. Given this, it is incumbent on this government and each school board to ensure the parental voice is not lost.

Parents can and do participate at the school level in a number of ways. The school council is the latest forum for this involvement. Similar committees have been around for many years in the form of parent-teacher or home-and-school associations. FWTAO members welcome this involvement of parents in the schools and are working with parents on the new school councils. However, we feel we must give a note of caution here. School councils are not appropriate forums for personnel matters that are complex, sensitive and governed by collective agreements.

FWTAO members will be challenging themselves to work out ways to welcome and involve more parents directly in the classroom. However, we think it is very important to find ways for all parents to become involved

— those who work outside the home as well as those with flexible time during school hours. Therefore, FWTAO urges the Ontario government to be a positive role model to other employers. Specifically, this means we recommend that the government provide its employees who are parents two days per school year per child for participation in classroom activities without loss of pay or benefits.

The importance of libraries and books: Increased technology in the classroom is acknowledged to be a good thing. We want our students to be computer literate. At the same time, FWTAO would like to remind you, and through you the government, that next to the teacher, the best classroom resource, the best guarantee of success, remains the book. Among the best predictors of success, for example, in a fourth grade reading test in 41 states was the number of books per student in the school library. Research in Colorado found that investments in school libraries resulted in better library collections, which in turn resulted in superior reading achievement scores among elementary schools in that state.

Children read more when they have access to interesting reading material, material that reflects the world as they know it. Even reading magazines and comic books encourages the reading of other materials. We at FWTAO recognize the importance of books and over the last few years have donated 3,494 books respecting diversity to school libraries around the province. In fact, we're awaiting another 1,500 from the publishers to be shipped out now to schools around the province.

There is a clear negative relationship between poverty and the amount of print at home, and a positive one between the amount of print at home and the amount of reading children do. What children cannot get at home, we must provide in the schools. Books are essential to learning, and providing them is not costly, but it will require a commitment by this government to include school libraries in the funding formula. Otherwise, the recent trend that has seen the loss of teacher-librarians and of library resources will continue.

We have some concerns about technology. Network technology is what you invest in after you have some idea of what you want an educational system to do and be — not before. There is no strong evidence to suggest that using computers will improve a child's learning, yet there is evidence that music, art instruction, and access to books and libraries do. We would strongly caution against allowing other education programs to be cut in order to provide the needed funding for technology. We agree with Henry Jay Becker, who maintains that investments in people are more important than the investments in the technology itself.

Becker goes on to tell us that based on a hypothetical example, he estimates that the cost of implementing a good technology component in a school would be about $1,375 per pupil for the personnel support costs and about $550 per pupil for the equipment/material costs. His estimates of the personnel costs are based on research of "exemplary computer-using teachers." Some of the personnel costs he identified include time for staff development, teacher access, full-time technology coordinators, equity support and reducing class size to 20 per teacher. FWTAO strongly recommends that all costs associated with implementing more computers in classrooms be included in the costing of technology, rather than just the costs of the equipment.

Concerns about fund-raising: The Ontario Public School Teachers' Federation released a study on fund-raising in public elementary schools in September of last year. This study estimates that a total of about $22 million was raised in 1995-96 through fund-raising efforts. Increasingly, money from fund-raising is being used to purchase what most of us consider to be essential items, such as textbooks, and to "maintain an adequate level of program."

Fund-raising is not an option for the core needs of any education system. Almost every school does some fund-raising for some activities. However, there is no equity in the outcomes. A school in North Toronto can raise over $30,000 in a single fund-raising initiative. A school in the inner-city core, a school with complex needs for a student population at high risk, would be lucky to raise $300. That's not equity.

I'd like to continue with the importance of equitable funding. Our education system should ensure equity, not exacerbate inequity. The government's yet-to-be-announced funding formula must be designed in such a way that the diversity of student needs across Ontario is recognized and addressed. Assuming that all students are the same and therefore that all school boards must be funded the same way will result in inequity.

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The Minister of Education recently said: "There will be equality in the system, that is my objective. Some [boards] undoubtedly, will get less money."

Our concern is that the minister's insistence on equality will result in those with the greatest needs being further disadvantaged. FWTAO maintains that a fair and equitable funding model for the education system in Ontario must be based on the following principles:

First, the overall level of education funding must be sufficient to provide a high-quality education for all children in Ontario from the age of four.

Operating expenditures per student must be increased on a yearly basis to cover inflation.

Increases in enrolment must be fully funded.

Funding for students with special needs must fully meet the needs and conditions identified.

Funding must provide for fair and reasonable salary increases for teachers and other workers.

All policies and new directions and initiatives that are imposed by the Ministry of Education and Training must be funded adequately, in addition to the regular allocations.

The funding formula must recognize the importance of specialist teachers in elementary schools — teacher-librarians, guidance counsellors, curriculum leaders, music teachers and physical education teachers.

The funding formula must result in equitable allocation to all school districts, taking into account differences in student population, for example, the 35% poverty rate in Metro, English-as-a-second-language needs, special education needs, as well as differences in school districts such as geography and size.

In conclusion, no single policy or program can ensure the school success of every child, but a combination of approaches can. A survey conducted in Orange county, California, found that the class size reduction initiative in that state has boosted the confidence in the schools.

We know that children learn better if they are confident in themselves. We believe this government should be boosting the confidence in our school system not by forcing amalgamation of school boards or by removing the local ability to fund programs that the community wants or by forcing the teachers in the province to take unprecedented measures to protest the actions, but by seriously trying to improve the education system by reducing class sizes, by providing the money to do so, by providing teachers with more professional development opportunities, not fewer, and by truly committing itself to the children and all citizens of this province. The teachers of this province are committed to the education of all children of this province. Is this government?

The Chair: Thank you very much. We have approximately four minutes per caucus for questions, starting with the government caucus.

Mr Baird: Thank you very much for your presentation. I wanted to ask one question of you at the outset. You spoke about the curriculum and the recent RFP that was put out by the Ministry of Education with respect to inviting teams to come forward. Is this something that has been talked about among your members? Have you talked to your members about that?

Ms Sädem-Thompson: Yes.

Mr Baird: The criteria in the request for proposals are very clear. Every team must have at least 50% secondary school teachers who are currently working in Ontario, and college and university educators also have to be involved with the team. You didn't mention it in your speech here, but did you tell your members that? Would they know that when you discuss this issue? I spoke to three or four teachers in my riding who had called me and written me on this issue. They were just mortified that American companies, evil multinationals, were going to be coming in to do this. They had received some information, but it wasn't mentioned that there had to be a majority of accredited teachers working in Ontario on those curriculum teams. I was just concerned that some people might have been left with a false impression on that.

Ms Sädem-Thompson: You're making the assumption that because there are 50% teachers on the team, if a corporation were the lowest-tendered bidder, the corporation wouldn't be able to recommend or suggest to the writing team to put a certain emphasis on to the curriculum. In Ontario in the past, the curriculum writing teams' work had been done by the boards of education and the teachers in this province working collaboratively with the ministry, not by lowest-tendered bidders and certainly not with the expectation that a corporation that might happen to have the dollars up front to bid would be able to influence that curriculum. That's the concern of the teachers' federation representing the women teachers in this province.

Mr Baird: But if 50% of the people on that team were practising secondary school teachers — is there a concern about the integrity of those folks? If you had a majority, plus university and college representatives as well, that seems to be a pretty solid safeguard there. Is that something you told your members? Are they aware of that? The members I spoke to weren't; they didn't know.

Ms Sädem-Thompson: They would be aware of that if they were able to access the MerX information on the Q&As that has that information listed.

Mr Baird: Sure, but when reference was made to them, when they were being told about the requests for proposals going out there, were they told at the same time that in these requests for proposals going out there was a built-in requirement that a majority of the people on the team had to be educators, in fact 50% practising educators in Ontario?

Ms Sädem-Thompson: The letter said clearly that the teachers, the university professors, the college professors and a professional writer were requirements as part of the proposal.

Mr Baird: Terrific. I'll just put one fact on the record. As of last week, 256 requests for proposals had been distributed to interested teams. Despite the hysteria, there hadn't been one single American firm, at least as of last week, of the first 256 that had requested the RFPs, so there hasn't been any interest from the Americans on that.

On page 17 of your brief you mentioned the idea about the government providing its employees who are parents two days per school year per child for participation in classroom activities. Is this something you've explored in terms of putting it on the bargaining table as an issue, in terms of your members having that ability on an issue? Have you had any success in terms of school boards — I'm looking at another public sector body — where a local fought hard for this and was able to get it?

Ms Keillor: Specifically in the collective agreement we have with our staff at FWTAO, that is a provision for them, that they are able to take leave to go to visit.

Mr Baird: I admire you for that, because many preach but don't follow through. I want to acknowledge that I admire that.

Mr Phillips: I appreciate your presentation and as always the focus on the students and working back from there. The thing I worry about is that we essentially have thrown out the past. It's ironic. Ontario had great economic growth in 1997, led the G-7, we were cleaning up in US trade, our exports burgeoning, Microsoft coming up here and recruiting people to go down and work for them, and as overwhelming evidence that something was going not badly in the education system, I was aware of the Durham school board getting an international award. I was at the presentation, actually. I'm aware the Premier

was in Europe extolling the virtues of our education system. None the less, they felt a need to completely throw out the past and frankly to take total control.

None of us will know what the school boards' budgets are until it comes out of some mysterious place. There will be no opportunity for us to vote on it or anything like that. It will just be, "There it is." Every school board in the province will be dictated to.

I always get a kick out of my Conservative friends, who before they got here said: "We're not going to have Toronto bureaucrats telling us how to run things in this province; it should be local input. The bureaucrats don't know what's best for our students." Yet we've gone to a system where it's going to be totally dictated out of the bureaucracy.

The purpose of my question is to get some idea from our teacher groups of whether you've had much input into this funding formula. You're on the front line, you are the ones who deal with the students on an hourly basis and it's your membership that have to make the system work. Has your organization had much input into this funding formula we're going to see in the next two to three weeks, and are you satisfied that it's going to reflect your input?

Ms Sädem-Thompson: Like most situations throughout this past year and last year as well of working with this government, opportunities we have asked for for consultation have not been met. Dates that we've set for meetings with the government have been cancelled. The basic response of the government in most of the scenarios has been, "What part of 'no' don't you understand?"

Is there legitimate consultation? I don't think so. Are we still trying? Yes. Do we believe the government will listen? We will continue to make every effort to make our information available, to make ourselves available, and I believe that's the best we can do.

1650

Mr Pouliot: We, like the members of the government, are products of this system, and I wish to thank you. I don't think as citizens we have done too badly. We have a lot to be thankful for, and in large part it's due to the dedication of the teaching profession in the province of Ontario.

You've suffered a lot. You've been much maligned. It's quite obvious that you have been the target since the day of the last provincial election: the need to create and now the actual state of crisis, nothing short of that; systemically, deliberating maligning people as overpaid, underworked — recall? The heat never stopped until a work stoppage, the court of last resort, and it still goes on.

I have a question for you. You've talked about curriculum. You have talked about class sizes. You've talked about the ability to fund. Bill 160 stipulates that by September 1 of this year a collective agreement must be in place. You will go and negotiate with what is technically your employer, but the employer will not have the right to levy, will not have the power to set class sizes and will not have the capacity to address curriculum. What will you be able to negotiate at the local level with your technical employer?

Ms Sädem-Thompson: That's a very legitimate question and a question that's putting fear in the hearts of all the teachers. We know from the Royal Commission on Learning that that group looking at in excess of over 3,000 consultation briefs and presentations said the most important thing for teachers is morale. It's very difficult for teachers to continue to have a positive morale and a positive attitude when their ability to negotiate with their school boards has been cut off at the knees.

Our principals and vice-principals likewise, in a recent consultation process initiated by this government, have repeated that they are fearful of their position, with no grievance rights, no rights to recall or redundancy, not knowing what the funding formulas will be for their schools. As the teacher leaders who worked with their professional colleagues to make a difference for Ontario's children and Ontario's future — we have cut our teacher leaders off at the knees as well by leaving them out on a limb.

I appreciate your question because, yes, there is a sense of frustration, a sense of disappointment and a sense of urgency on behalf of the school boards. I visited 46 school boards in the last year, usually three to four schools a day, and directors and trustees have told me that they are concerned about not having the funding formula. They're concerned about making decisions for children, for teachers and for communities.

Mr Pouliot: By listening and talking to government colleagues, I hear two words more and more often: "charter" and "voucher." What is your impression?

Ms Sädem-Thompson: If the government persists in eroding the funding level for public education in this province, what they will truly be trying to do is make parents think that voucher and charter systems are the only way to go. I am confident, however, that our Education Improvement Commission in its Road Ahead II document said that they do not support charter schools. That's a positive initiative for our schools and a positive initiative for our communities.

The Chair: We're going to have to close on that. Time is up, ladies. Thank you very much for your presentation and thank you for your time.

Members of the committee, we are set to adjourn until March 9. I suggest 10 am, but I'm in your hands.

Mr Pouliot: Civilized, Your Honour.

The Chair: Civilized, yes. We could take the late flight.

I can tell you that I have again inquired of the ministry. Mr Baird is here. We have two parcels of information coming from the ministry. I'm told they're working on them. They were hoping to have one today, maybe both, but I haven't seen them yet. We will distribute them as soon as we get them.

Mr Baird: Could I have a brief word with respect to the draft report? I did mention this to Mr Phillips. Nothing substantial, but I looked over last year's report and just wondered a few things. In some reports in the past they haven't included a list of presenters in the back. I very

much like that idea. I think it's a great idea to have the list of people we've heard from both in person and in writing.

The Chair: Any objection?

Mr Phillips: No. It's a good idea.

The Chair: Carried.

Mr Baird: The second issue was the format of the report, and I mentioned this to legislative research at the outset. I like the format, by and large, but there were a few, not many, where — for example, hospitals were under one section and health care was under another. If there are any areas like that where there's a harmonization, could we, not amalgamate them, but put them —

Ms Lorraine Luski: Break them out?

Mr Baird: Break them out but have them together in the same part of the report. That would, I think, be easier for reading of the report.

Second, the length of the report: One thing I found in looking at various legislative reports, to try to get the greatest utility out of them, is to hope they're read. Last year's report, I noticed, was just a little shy of 30 pages. I was going to suggest, if there was agreement, that we look at 20 pages, but leave it in legislative research's hands whether it has to go a little more than that. A smaller report might have greater utility, not so much for the members of our committee but for other members of the Legislature who will get it and other people in the public policy realm. It would maybe encourage more people to read it.

I did like, in last year's and recent reports, graphs and bullets and bold points. It's a reader-friendly document so that hopefully more people will get to read it. Those were two comments with respect to the drafting.

The Chair: Thank you. Does anyone else have any comments with regard to the drafting?

Mr Phillips: We had this conversation. Organizations spend a lot of time on their briefs, and if we cut it from 30 to 20 pages, fewer of them will have a chance for their views to be reflected in the report. I think it's a balancing act. Maybe when we see the report — I would personally err more towards 30 pages with more opportunity for the groups' input than 20 pages for brevity.

The Chair: Anybody else have anything?

Ms Luski: Could I say something?

The Chair: Certainly.

Ms Luski: Last year we had 58 submissions. This year we had 85. Maybe 20, 25 pages: Would that be within the —

The Chair: I think it's a goal. Mr Phillips makes a good point as well. People have gone to a lot of trouble, many of them hours and hours of professional time in preparing some of these documents.

I don't share your opinion, Mr Baird. Quite frankly, whether I get past the first page of any of those documents has nothing to do with the thickness. I don't want to tell you what percentage I don't get past the first page of.

Mr Baird: I guess my whole point is for this document to have greater utility, first for our colleagues in the Legislative Assembly and then for others in the public policy field, that the more readable its size and its format in terms of whether there were graphs or bullet points — to make it a reader-friendly document so it would have some utility, so that other folks do take the time to listen. Maybe you could just take what we've heard and —

The Chair: As far as our colleagues are concerned, if we can't get them to read this document, they mustn't read any.

Mr Phillips: One advantage of being around here for a while is that at least you've got a bit of a memory about what happens around here. I think the people who read it are probably our committee. I think the staff read it. Some of the members will read it. But realistically, none of us reads everything. But I think the people who present all read it.

From a political point of view, from all our political points of view, it's wise that we reflect as much of their information as we can. This is not an earth-shattering decision but politically, for all our sakes I'd rather err on the side of it being five pages longer than we want but that groups that have presented here have important issues reflected in the report.

Mr Jim Brown: I agree completely with Mr Phillips. Leave it up to me. I'll read it all, but maybe some people won't, but leave it up to the people what they are going to read.

The Chair: Anyway, you've heard our feelings. It is a goal only, and I'll leave it to you, Ms Luski.

Mr Baird: I have another related issue, and I'm sure this is the same on every committee that writes reports. The sooner we can get the draft document the better. I appreciate that it's a lot of work, a tremendous amount of work, to put a quality document together. If there's any chance of getting it early, that would be great. I appreciate that it's a long process, but if there is any opportunity to get a copy of the document earlier for the committee members, we'd greatly appreciate it. Having said that, I do appreciate that it's a big task.

The Chair: I think the subcommittee had indicated we'd try to have a draft for March 4th. If we could have it any earlier, certainly.

Mr Baird: Terrific.

Mr Phillips: Just to refresh my memory, I think each of the three caucuses is to have its recommendations for that day, are we? Were there any instructions?

Mr Baird: No.

Mr Phillips: We never gave ourselves any instructions on that?

The Chair: Not that I can recall.

Mr Baird: We did speak in terms of a process that was two days. Maybe this is something where the three parties could speak informally if there is any agreement as to how we could make the best use of that time.

Mr Phillips: My experience, John, is that if the caucuses don't think about our recommendations, it's tough to do it in those two days.

Mr Baird: I'm talking about the process for how we deal with the recommendations in terms of do we go all Liberal, all NDP, all government or do we go around one at a time? I'm just trying to think of a way that would be

most collegial and not adversarial. Obviously, there will be some from all parties that all of us will want to support and there will be others where there will obviously be considerable disagreement.

Mr Phillips: Is it the expectation that each of us will bring the recommendations? I can't remember what the subcommittee decided.

The Chair: I don't think we dealt with it.

Mr Baird: That was certainly my expectation, to arrive on that morning and our caucus will have discussed the issues and arrived with a set of draft recommendations to present to the committee.

Mr Phillips: We will too. I'm not sure Mr Pouliot knows that, though. To me it doesn't really matter. We're quite prepared to hand ours out and each of us spend half an hour to go through the background on the rationale.

The Chair: Let's notify Mr Pouliot that's what we intend to do. Do we want to exchange them before the 9th?

Mr Baird: We wouldn't have them. We would obviously want to read the report and then look at what we would recommend from that. There are a lot of ideas we all have now, but —

The Chair: It would be handy to have them even for the weekend before the 9th, Friday the 6th, to go over them. In any event, we'll have them on the 9th if we don't circulate them before.

Mr Baird: Great.

The Chair: Excellent. We are adjourned then until 10 am on March 9.

The committee adjourned at 1704.

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Published by the Legislative Assembly of Ontario

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Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Monday 9 March 1998

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Lundi 9 Mars 1998

The committee met at 1004 in room 228.

PRE-BUDGET CONSULTATIONS

The Chair (Mr Garry Guzzo): This committee will come to order, please. We have a quorum. Before we deal with the report writing of the committee's hearings, are there any preliminary matters to be dealt with? Any preliminary comments?

Very well, with regard to procedure, what is your wish?

Mr John R. Baird (Nepean): I was not on the committee last year, Mr Phillips was, so I will just throw on the table that we go through the report page by page and if there are any stylistic or semi-substantive changes, we consider them as we go, and if there are none, we just go on to the next page.

The Chair: I'm in your hands.

Mr Ted Arnott (Wellington): Mr Chair, is it normal procedure during this committee when the committee is writing a report that it be written in camera, or was it normally in past years done on the record with Hansard?

The Chair: I asked that question earlier and I understand that it has been done both in camera and in open session in the past. That's precisely what I was thinking at the time I asked for any preliminary matters.

Mr Gerry Phillips (Scarborough-Agincourt): I assume this is an open session. I have personally zero interest in doing anything in private unless it's personal matters.

The Chair: Oh, personal matters. You mean in committee. We're obviously in open session unless someone feels differently and so votes against.

Mr Tony Silipo (Dovercourt): I was just going to say the same thing as Mr Phillips. I don't see the rationale for doing this in private session. I think the last time I was here we even did it downstairs in room 151, so it was even more public than being in this room. I'm assuming that what we need to do, first of all, is just be clear that the summary of the report as put together by the staff is accurate in reflecting what we collectively thought was said to us, and then obviously the more crucial issue will be the recommendations, and I'm assuming we'll get into debate on those. I have some recommendations, I'm assuming government members do and I'm assuming Mr Phillips does as well, and we'll deal with them. But I don't see why that needs to be in private. I mean, we're all here to be accountable for the things we say and do, so I think we should proceed in public session.

The Chair: We have no motion, so we're in open session. The suggestion, though, has been made that we go page by page. I think before doing that the first question we should address is, are there areas or issues which were dealt with in the submissions that are not reflected in any way in this document that we have before us, this draft, and, if so, what are they? Then once they're identified we will deal with those and whatever else we have here.

Mr Baird: I was going to bring this up as we went to the part of the report that dealt with sectors of the Ontario economy. We were interested in seeing if research could prepare a small summary with respect to high technology as a sector and, in addition, to small business as a sector. For example, in high-tech, we heard from the Canadian Advanced Technology Association and ITAC Ontario. Then in the small business sector we heard from the CFIB, Delta Engineering, Global Ryan's Pet Food Co, Craaytech Painted Plastics, the Rubbery Warehouse Store and the PLM Group Ltd. I thought there might be some concerns specific to small business and high technology that we might want to include under the sector categories and, if there was agreement, just to ask legislative research to prepare a similar addition of a paragraph or two on each of those areas.

The Chair: Are there any other areas?

Mr Phillips: I was quite disappointed in the two responses I got to questions on revenue from gambling and on the teachers' pension. They're essentially not what I expected. On the teachers' pension, you may recall that the committee was trying to find out the status — do we have to make these payments? — because there is an \$800-million difference between what the government has said it spent on pensions and what is reported in the financial statements. I had expected an answer back that would say, "Here are the expectations over the next year, what you should expect in pension payments," and instead I got a non-answer. On the gambling revenues, we were told at committee by the deputy that the estimates would be in the hundreds of millions of dollars for video lottery terminal revenue — that's what he said — and again we got back a non-answer.

I'm not sure how the committee can deal with either of the two issues. What is the taxpayers' obligation on teachers' pension? Is it \$500 million or is it \$1 billion? We're talking at least a \$500-million difference, and the answer

was not at all helpful. And the deputy said that video lottery terminal revenues would be in the hundreds of millions of dollars in the upcoming year, and we've got nothing — this answer is a non-answer. I don't know why, but that's a minimum of $1 billion that we don't have an answer on.

1010

The Chair: That's a very valid point and I recognize it, but I don't want to deal with it yet. When I asked for preliminary matters, I was more or less expecting that might be one of them, and I will come back to it, but at this point in time I want to know, for the benefit of the people who are assisting us, whether there are any issues and areas that are not covered in the draft that you feel should have been covered.

Mr Silipo: I don't have any additional areas. I just want to state that I don't have any problems with what Mr Baird is suggesting. I presume that what would happen is that the researcher — there are some references made inside here already to some of those, so I'm assuming what Mr Baird is looking for is for those to be taken out and put in a separate section, plus any additional comments that are there that weren't put in. Is that it?

Mr Baird: Not entirely. There are a number of small business and high-technology areas already mentioned in the report, just as there would be, for example, for manufacturing throughout the document. I guess what I wanted is a special section under the sectors. There may be some duplication, as there is already, with various sectors, so I don't want anything taken out, rather two small sections added in.

Mr Silipo: That's fine.

The Chair: Is there anything you would like to say with regard to Mr Baird's comment?

Mr Ray McLellan: On your point, Mr Baird, we had started off with a high-tech section at the back, and then we were trying to integrate and incorporate as much of that material at the back into the report, into the text. In the final analysis, what happened is that was moved into the section dealing with colleges, universities and high technology, that HT. It was brought forward, but I can certainly take your comment and take something back and reconstitute that there.

Mr Baird: Terrific.

The Chair: You'll have some time and you know what we're looking for. It's not a question of what is said; it's a question of highlighting the submission and the fact that a sector of the economy was present, which is not obvious, shall we say, from reading the introduction or from the content.

Any other areas? I'll go back to your point, Mr Phillips. You've made the point. Is there anything further you want to say?

Mr Phillips: I don't know whether the committee is as frustrated as I am, but on the teachers' pension it literally is a $500-million or $600-million difference, and if on the gambling revenues the deputy is right that it's hundreds of millions of dollars, this is not some insignificant amount. We're talking a difference in the deficit of $1 billion.

I'm frustrated, Mr Chair. I don't know what more you can do to get what I thought was going to be the answer back. On the pensions, either there is an actuarial surplus in the pension and we don't need to make the payments, or there isn't. On the gambling revenues, the deputy has said it is hundreds of millions of dollars. I'd like to know where the hundreds of millions of dollars are. Frankly, all we got back was something that was announced six months ago.

Mr E.J. Douglas Rollins (Quinte): It will be out. He's just going on a series of —

Interjection: Twelve months.

Mr Phillips: I gather when he said they expect hundreds of millions of dollars of revenue, the deputy wasn't — "It's certainly in the order of hundreds of millions of dollars."

Mr Rollins: There are no VLTs yet in place to generate that income, are there?

Mr Phillips: Surely in the budget they will be estimating what the revenue is. They've got a plan for it, they are moving forward on the plan, they've announced the plan and he says it's in the order of hundreds of millions of dollars. If we're trying to deal with recommendations on dealing with the deficit and we don't have anything more than just the word of the deputy about hundreds of millions of dollars, I'd like to know the plan. What is it?

The Chair: Well, you've asked the question and the deputy did hear you, there's no question about that.

Mr Monte Kwinter (Wilson Heights): On the same point, we have a situation where the letter of March 6 from the Ministry of Finance addressed to Mr Phillips, where he addresses the gaming revenues, suggests that charities will receive, as a result of charity gaming club and VL initiatives, up to $180 million a year. That $180 million a year represents 10% of the gross gaming revenues. On that basis, obviously the ministry thinks they're going to get $1.8 billion, if they're going to give them $180 million, and that doesn't include what they get from the casinos.

In the second paragraph of the letter they say that revenue projections are "$1,435 million from both the Ontario Lottery Corp and the Ontario Casino Corp." Somewhere along the line they've come up with a $180-million projection for the charities, which is 10%. So there's a huge amount of money they have already identified, but they won't put it down and say, "This is what it is." The figure that I have heard is that VLTs are supposedly going to generate at least $700 million a year. All we're trying to do is find out, what is that number and how does that fit into the budget? On the one hand they tell you what the proceeds are going to be for charities, but they won't tell you what the gross amount is or what their expectation is.

Mr Baird: I think we could get into a whole host of public policy debates and political debates and discussions on a good number of public policy issues. Perhaps I could suggest that if there are concerns, they could certainly be raised in terms of one of the recommendations. I think what we're here to do is not to undertake an examination

of a whole host of public policy issues; we're here to listen, to make inquiries of the presenters we heard in these pre-budget consultations and then finally to make recommendations that the government may wish to consider with respect to the preparation of the 1998-99 budget. So I don't know what sort of path we could pursue in terms of these discussions beyond a discussion of them if they were contained in a recommendation that perhaps the official opposition would like to present for discussion.

Mr Phillips: I think you can appreciate that in the financial statements the taxpayer has laid out $1 million of taxpayer money to set up in the Ontario Trillium Foundation an agency which will distribute video-lottery-based funds up to $100 million, with the taxpayers paying $1 million to set up a video lottery special communications unit. The taxpayers are spending their hard-earned dollars: setting up this lottery special communications unit for $1 million; $1 million to the Trillium Foundation to hire staff to distribute all of this money. The government may not want to talk about gambling, but they owe the public an explanation of where we're going on this stuff, and they owe the committee that. I just find it extremely irritating that something as monumental as this — it really is bafflegab. There's no other way to describe the answer we got.

1020

The Chair: I accept and respect your position. After I received a call from Mr Phillips in Ottawa on Tuesday or Wednesday of last week and further inquired of the ministry with regard to the questions that he had raised — I'm not clear what you're talking about when you mention "and that doesn't include casinos." Are you talking casinos or are you talking charity —

Mr Phillips: I didn't say that.

The Chair: I'm sorry; it was Mr Kwinter.

Mr Kwinter: Mr Chairman, what I am saying is that —

The Chair: Seven hundred million dollars but that doesn't include casinos.

Mr Kwinter: That's just revenue from VLTs.

The Chair: What casinos are you speaking of, the two that —

Mr Kwinter: I'm talking about the three, or four, if you want to consider it four. You've got the one in Niagara, the one in Rama, the one in Windsor and the riverboat in Windsor.

The Chair: All right. Let me just say for clarification's sake that, as I see it, Mr Phillips's question would possibly be answered this way: Nothing has changed in the last 12 months. Whatever was contemplated in the last budget is contemplated again in this budget because nothing has happened in terms of projected revenues. Having been part of the committee that travelled the province and dealt with the legislation, certainly that was the government's position at the time, estimating up to $180 million in revenue for charities and up to $1.8 billion in terms of government revenues — "up to."

Mr Phillips: But you see, Mr Chairman, I said to the deputy, "Can you give us the estimate of how much revenue we should expect in the upcoming fiscal year from video lottery terminals?" He said, "It's in the order of hundreds of millions of dollars."

The Chair: I remember your question, I remember the answer and I've read the reply, which came, I believe, after 3 o'clock on Friday.

Mr Phillips: Yes, it did. Thank you.

The Chair: Let that be noted.

Mr Kwinter: Mr Chairman, I understand your comments about "Nothing has happened as yet," but reports emanating out of the Ministry of Finance and the ministries responsible for economic development and trade and consumer and commercial relations are that notwithstanding that the introduction of VLTs has been delayed, they expect to have them up and running starting in April. When you consider that the fiscal period we're talking about starts April 1, they will certainly be a factor in next year's economic revenues. All we're saying to the government is, can you please tell us what you expect that number to be? Because it's going to impact on the budget. On the one hand they're saying, "We expect to get up to $180 million, which represents 10%, but we won't tell you what the number is." That's all.

The Chair: I understand what you are saying, but please understand what I am saying. I'm not trying to answer the question. I am simply saying that it's true that — I didn't mean to say that nothing has happened. They are in exactly the same position in April 1998 as they were in April 1997, so the projections, I would assume, would be exactly the same. That's my answer.

Mr Kwinter: No, with all due respect, we are doing pre-budget hearings — budget, not fiscal reality.

The Chair: I appreciate that.

Mr Kwinter: We're talking about budgeting and you're saying we are going to be in exactly the same position in April 1998 as we were in April 1997. I'm suggesting to you, with respect, that we are not in that position, because in April 1997 to April 1998 there are no VLTs. But we know — the government has said — they expect to have the startup on these VLTs in April 1998.

The Chair: And I'm saying to you that if you'd asked that question in February 1997, you would have got exactly the same answer. They expected to have them in April 1997 and they didn't. But because they did expect to have them in April 1997, whatever they were budgeting for revenue in April 1997 is probably very close to what they're budgeting today. That's my guess. I'm not talking from any authority. I waited till 3:20 to get the answer on Friday as well. The point is well made. Thank you.

Anything else? Are we prepared to proceed then on a page-by-page basis of the draft submission?

Mr Phillips: Yes.

The Chair: The table of contents is the first item, pages i, ii and iii. Other than the suggestion from Mr Baird, which apparently has been accepted, to have a heading with regard to the issue of high-tech isolated in itself and a few paragraphs drafted on that, are there any other issues?

Mr Baird: And on small business.

The Chair: And on small business, I'm sorry. With that amendment, we can then carry the contents section and move on to page 1. Any comments or questions with regard to page 1?

Mr Baird: I just had a few changes and I guess I'm in your hands as to how you think I can best make them. Would I be best to present the changes just for pages 1 and 2 under that category, "Economic Outlook and Fiscal Profile"? I have a number to present. Am I best to present them all or just one by one?

The Chair: If we're going to proceed page by page, I would suggest you let me have them with regard to page 1.

Mr Baird: The first bullet I would rewrite to say as follows, "This year's deficit outlook is $5,162 million." I would strike "Two years from now" and insert "Just over two years from now, in the fiscal year 2000-01, the deficit will be zero." That's just clarifying the minister's comments that he made on February 10 and it's in Hansard on page 1787.

The Chair: Do you understand the proposed amendment as submitted by Mr Baird? Any questions?

Mr Arnott: Would it not be more clear to say "$5.162 billion," instead of "$5,162 million"? That's more common usage.

The Chair: I would have thought it was billion, but —

Mr Arnott: The way it's written is technically correct; $5,000 million is $5 billion.

Mr Baird: I guess I'm in your hands, Mr Chair, as to how you want to conduct that. Do you want to take one change at a time or do you want to take 10 changes and then discuss all 10 at the same time?

The Chair: If it's going to deal with the first bullet I'm going to hear all the submissions with regard to the first bullet. So $5.162 billion as opposed to $5,162 million.

Mr Arnott: Do you understand what I mean?

The Chair: Yes, I understand what you mean. Quite frankly, I had missed that it was a comma. Does anybody have a preference?

Mr Baird: I agree.

The Chair: It might be more consistent, $5.162 billion.

The suggestion you've heard from Mr Baird, any comment?

Mr Kwinter: I have a problem with what Mr Baird is suggesting. There's no question that the government has projected a balanced budget in the 2000-01 fiscal period. However, several of the key economists who appeared before this committee had suggested that that will happen at least a year earlier, and that if it doesn't, there are some very serious problems with what the government is doing with its finances. There's every indication that will happen. I think this statement reflects that it's going to have, and I think the Premier has gone on record as saying that he expects to have, a balanced budget, not in this fiscal period but in the fiscal period following this one.

Mr Baird: This isn't a discussion. This is a summary of what the minister presented before the committee, not a summary of what others may have presented or on other public policy issues. I feel we have to clarify it and make it little bit more crisp.

The Chair: I think that's a fair comment. This is referring, as I read it, to what the minister said.

Mr Baird: I don't disagree with your comment, by the way.

Mr Kwinter: That's fine.

Mr Silipo: That was the point I was going to make. Maybe we should just be really clear about this, that in fact the bullets that are here reflect or are supposed to reflect statements that the minister has made. Perhaps what we could do is, before the three bullets, just be really clear about this by inserting a couple of words such as, "He stated that," and then bullets 1, 2, 3.

Mr Baird: Fair point.

Mr Silipo: Or words to that effect so that it's really clear.

The Chair: To clarify that this was the minister's position.

Mr Baird: It says right above there, and I think it's clear, but if you would be comfortable with a second clarification, that's fine.

Mr Silipo: One could go from that next to the bullets and still have some confusion, I think.

The Chair: Anything else?

Mr Baird: I would insert two more bullets.

The Chair: No, I want to deal with this.

Is that bullet carried then? After the word "billion" — it now becomes "billion" — "Just over two years from now to the year 2000-01" —

Mr Baird: In the fiscal year 2000-01?

The Chair: In the fiscal year — "the deficit will be zero." Carried.

What's your next point?

Mr Baird: I would add two further bullets in terms of summarizing the minister's comments, and again —

The Chair: I'm sorry. Did you say to add two further bullets?

Mr Baird: Insert a fourth and fifth bullet.

The Chair: Yes?

Mr Baird: These are directly from his comments in Hansard on pages 1787 and 1788. The fourth bullet I would propose would read, "Ontario's economy is growing faster than the rest of Canada and faster than any of the G-7 countries." Then the fifth bullet, "Since June 1995, 311,000 new private sector jobs have been created."

The Chair: Once again, this is what the minister said?

Mr Baird: Yes.

The Chair: Any comments? Carried.

Anything else on page 1?

1030

Mr Baird: Just a number of stylistic changes in the second to last paragraph, and these are non-substantial. I think they just do a little bit of clarifying. In the second line, "that revenues have increased $2.4 billion since the 1997 budget," eliminate the comma and insert "and" and then take out the parentheses before "primary" and after "realignment" in that paragraph, just for stylistic reasons.

Mr Kwinter: I have a problem with the sequence of what has just been suggested. I have no problem with

adding those two bullet points, but if you add them in the same grouping as the three, then you're saying that the underlying reason for this economic performance, for example, the creation of the jobs, was attributable to the fact that revenues have increased. The fact that revenues have increased has nothing to do with creating jobs. What you're doing is you're talking about the deficit and what the fiscal performance is going to be, and the reason it's being accelerated is that revenues have increased. I have no problem with putting in a statement that the minister said so many net new jobs have been created when the budget is going to be changed, but I have a problem when it follows on that the underlying reason for this economic performance is the fact that revenues have increased when it comes to creating jobs, because it really has nothing to do with creating jobs.

Mr Baird: Again, this is a public policy discussion.

The Chair: Just a minute. Remember this, your point is accepted, but what we're saying now with the change is this is what the minister stated.

Mr Kwinter: I have no problem, but I don't think the minister stated that the reason he's got this number of net new jobs is because of the economic performance of an increase in revenues. The increase in revenues is a result of the economy growing, the jobs are a direct result of that, and as I say, I have no problem with its being in there, but not at that point. That's all I'm saying.

The Chair: I hear you. Thank you.

We're back to the bullets and adding the bullets without editorial comment between bullet 3 and bullet 4. The suggestion has been made that there is a causal connection, and I accept that; I think I have to accept that.

Mr Baird: I don't. I think these are reflected in the minister's statement, and I can reference the fourth bullet that I'd like to add, Hansard, pages 1787 and 1788.

The Chair: I accept that, and when I say I accept it, I think Mr Kwinter makes a valid point and I think the minister was making exactly that point. What I am saying — and since we've already passed the bullets I hesitate to go back to them — is my interpretation would be that the minister was making that point.

With regard to the changes in the second-last paragraph, any comment?

Mr Silipo: Yes, I would actually prefer if the information that's in the brackets that Mr Baird is suggesting we take out be left in, and if it's a question of just the sentences flowing, perhaps what's in that bracket could simply be turned into another sentence and then set out there.

The Chair: You've heard our comments. I'll allow you the edit. Anything else on page 1? Page 1 is then carried, as amended.

On page 2, amendments?

Mr Baird: Again, just a clarification, in the first half paragraph at the top, the first full sentence: "Efforts to reduce the deficit are important to slow the growth in the forecast debt" — rather than "of the debt" — "which stands at," just for purposes of clarification, "$106.7 billion at March 31, 1998," just to be explicitly clear, because the report will be coming out in a couple of weeks and I thought it would be good to have a specific number.

The Chair: So you want to insert the word "forecast" before the word "debt" and you want to change the number to "$106.7 billion at March 31, 1998." Accepted? Accepted.

Mr Baird: Just one more small change in the first full paragraph, the second full sentence: "While job growth for youth reached," I would insert "about 30,000 jobs over the past 11 months, the minister," and then continue. Again, it's just a clarification.

Mr McLellan: On the point of the debt, Mr Baird, in the past what we've tended to do is to stick rigorously to the information provided in the submissions by witnesses and documentation, and not to necessarily update it on subsequent information that comes to light. I don't have a problem; I just want to bring it to your attention that we've tended to stick with that process, rather than updating on subsequent information following the hearings. You either stick with the information in the hearings or you open it up and introduce new information during the report writing process. I just want to point to that departure. I don't have a problem with it.

Mr Baird: It's a fair point.

The Chair: I don't know how important it is on this particular statement, but it's going to be a very valid point on other matters, I think.

Mr Baird: I think it's a very fair point. On this number I just thought that was for the general public or the folks who read this report, just so we're absolutely crystal clear what the net debt is as of a particular date, just to eliminate any ambiguity.

The Chair: We've already carried it and it does become that much more precise, at least by picking a date as of when we're talking. If someone has any objections, we will go back. But I think Ray's point is well taken.

With regard to these proposed amendments, inserting the words "about 30,000 jobs in," is it "the first 11 months" or "the last 11 months"?

Mr Baird: "Over the past 11 months."

The Chair: With the greatest of respect, that does not clarify anything. What are you talking about, "the past 11 months," as of what date?

Mr Baird: As of the date the minister made the presentation.

Mr Silipo: I think you just need to put whatever the dates are.

Mr Baird: They are in the back.

The Chair: All right, "about 30,000 jobs in the 11 months ending February 1998"?

Mr Baird: Sure, that's a good idea.

1040

The Chair: I suppose January 31, 1998, would be more precise. He was delivering this in the first week of — is that acceptable? Is it carried?

Mr Silipo: The point that's made in the first sentence of that first full paragraph is, of course, the same as we've inserted now under one of the bullets on the previous page. So it is repetitive. I don't know whether we need to have it

there again. You could still take it out and just simply either start with the rest of it as it is or just say "Job growth for youth" etc.

Mr Baird: That's fine.

The Chair: So if we're putting it in in that bullet, we take it out here? Is that agreed?

Mr Baird: That's fine.

The Chair: Very well. So that first sentence comes out and then I presume we start the paragraph with "While job growth," as amended. Carried.

Anything else on page 2?

Mr Phillips: We can't change this because this is what he said, but I just want to express my frustration on the way we report jobs. I'd like some day to use a consistent measure. I've always used what the government uses. In their Economic Outlook they have employment, they have a number. We've discussed almost yearly with the financial officials what number should be used for recording jobs. Unless you start to use a consistent one, everybody picks the one that makes them look best, including probably the opposition: We'll say, "This is blah, blah, blah." The equivalent would be if we report revenue on the basis of, "In the last three months, this happened" or "In the last six months, this happened."

There is a number that has been used always in budgets. It's the StatsCan number; it's the number the Ministry of Finance publishes; it's the labour force statistics for Ontario; it's the number that's in all the budgets. As I say, if we're selective, ie, "Within the last seven months, this; in the last eight months, that," you never really talk apples to apples to apples.

I shouldn't say I don't care — I do care — but I understand why the minister would come and select the best possible set of numbers. It's just the way it works. But I would hope that we could all ultimately agree on how we should measure job growth. To me, I take it the way the government has always done it. If any of you look back through any of the Economic Outlooks, any of the budget numbers, it's always using the Stats Canada number. I just say that the Stats Canada number for 1997 shows job growth of 102,000 jobs. It doesn't change the number of jobs out there, but at least it's a way that we don't kid ourselves, and that's where the discussion has been around here: "Well, the economy grew at 4.4%, jobs grew at 1.9%" — that's the number, by the way, the government uses: 1.9% — "Is there something going on?"

We can play games with ourselves forever, I guess, by using different measurements to our own purposes. But to try to deal with consistency, I just say to the committee that I think we should set how we want to measure jobs, and if we want to change it, I suppose I don't have a problem with that. But I'd at least urge the committee members to look at the numbers themselves so at least we all agree with the numbers.

Now, you can't change that, because this is what the minister said. It's probably factually not incorrect. But we don't have a steady benchmark. The number I use is the number the government uses. You can see here, Economic Outlook, employment growth, and they use the number out of here, but we keep jumping it around.

There's nothing we can change here because this is what he said, and we can't change what he said. But at least for ourselves we should all at least look at the Ministry of Finance Stats Canada numbers on job growth and say, "In 1994, it grew 71,000; in 1995, 71,000; in 1996, 80,000; in 1997, 102,000." By the way, on youth employment, the 1997 youth employment is actually down 6,000.

Again, that's the number the government itself normally uses, unless it's not in their best interests.

The Chair: Your frustration is noted. I might tell you you're in good company. On Ottawa radio yesterday, the chairman of the Conference Board of Canada, Mr Nininger, made the same point. He didn't make it as forcefully or as eloquently, I might say, Mr Phillips, but you're in — maybe I shouldn't say you're in good company.

Mr Phillips: We're in the same company.

The Chair: Some people think you're in good company. It is a valid point, and it obviously creates some benefits for people in our position and some confusion for people in the —

Mr Phillips: To be honest with you, Mr Chair, it makes the 1997 numbers look worse for "the government," but it would make the 1998 numbers look better for the government, in my opinion, if you used a consistent measurement. But I'll note it and I'll probably be sitting here again next year and say, "Well, gee, I see you've changed the way you report your numbers."

Mr Silipo: I think Mr Phillips, as you've noted, Chair, makes a very valid observation. I wonder if there isn't a way in which we could, without taking away anything that is attributed to the minister — I would agree with him that what we're talking about so far is reflecting accurately what the minister on behalf of the government has said. But would there not be a way, perhaps towards the end of this particular first section on the economic outlook and fiscal profile, or somewhere else if it's more appropriate, to make that kind of notation in terms of reflecting the job numbers using, as Mr Phillips has said, the Stats Canada numbers? Those are the only ongoing common measurement that I think there is when you want to compare anything over the next — looking into the next couple of years and in fact going back however many number of years.

I would just make that as a suggestion, because I think it's possible to do that without starting to quibble about numbers or seeming like we are trying to quibble about numbers, but just simply noting that there is a variety of ways in which these jobs numbers are looked at or are recorded or are reflected and that the only kind of common one, certainly that I've seen, are the Stats Canada numbers, and somewhere noting that in the report. I don't know where or how it would be best to do that, but I'd raise that as a possibility.

The Chair: It's a valid point.

Mr Baird: I would just indicate, Mr Chair, that if we were to go through the various presentations that folks

were making and then made our own editor's comment or editor's note before and after each one, I think we'd be going into uncharted waters we would rather not go down.

The Chair: It's a valid point. There are some pitfalls.

Mr Baird: But if the minister chooses to use the job statistic way in his presentation, I don't think we should — nor would it be appropriate for me at CUPE's presentation to note that the committee believed these numbers were wrong and should be used a different way.

Mr Silipo: I wasn't suggesting we do it in juxtaposition here to the minister's presentation. That's why I was suggesting that perhaps somewhere else, somewhere later on in the report —

Mr Baird: I think you said specifically at the end of the economic and fiscal outlook.

Mr Silipo: It's simply because again there, the next part of this talks about the Ministry of Finance officials' report to the committee and reflects a number of the statistics that they provided to us. As Mr Phillips pointed out, the numbers that are in the actual fiscal outlook are the Stats Canada numbers. It's not like we would be extrapolating and making up new numbers. We would be using information that was there, if not as part of the presentation then certainly as part of the documentation that was provided to the committee by the Ministry of Finance officials.

I'm not trying to create something that doesn't exist. I'm simply saying there is a very logical link we can make between the common denominator way of measuring, among other things, jobs growth, which are the Stats Canada numbers, and the fact that those are reflected, as Mr Phillips was saying, in the Ministry of Finance documents.

The Chair: With regard to page 2, are we ready? Carried as amended? Thank you.

Page 3.

Mr Baird: I have two issues, coincidentally, on the issue of employment labour market. One is stylistic and one is substantive.

Given Mr Phillips's comments, I'd put on the table and ask the committee: The number 26 in the committee is what Mr Dorey used in Hansard. It should rather read 16. I would ask if there would be the willingness to change that from 26 to 16 so that it's an accurate number.

The Chair: Agreed?

Mr Phillips: What's that, the Help Wanted Index there?

Mr Baird: Yes. It's supposed to be 16. I concede Hansard says 26, and I just wanted be up front. Hansard says 26. He should have said 16.

1050

The Chair: Are we agreed?

Anything else on page 3?

Mr Baird: Stylistically, just a quick change, and this is purely stylistic. I would change it to read, "For example, over the last 11 months the Help Wanted Index was up 16%," period, and omit the rest of that sentence. Then I'd omit "In the order of" in the next sentence so it would be "Two hundred and thirty-four thousand," not "In the order of 234,000." It's just "Two hundred and thirty-four thousand private sector jobs were created and the provincial unemployment rate decreased" — just omit the word "has." Those are just two stylistic changes.

The Chair: Let me understand it now. The sentence would read, "For example, the Help Wanted Index was up 16%."

Mr Baird: No. "For example, over the last 11 months the Help Wanted Index was up 16%." Eliminate —

The Chair: — "in 1997...."

Mr Baird: Yes, and then eliminate "In the order of 234,000" just to read "Two hundred and thirty-four thousand," and then eliminate the word "has" in that sentence. Those are purely stylistic.

The Chair: Are the stylistic changes accepted?

Anything else on page 3? Page 3 is carried? Carried, as amended.

Page 4: Any additions or deletions? Page 4 is carried? Carried.

Page 5: Any additions or deletions?

Mr Baird: In the second paragraph, eliminate the range where it says "$55-56 billion" just to say "$56 billion."

Then one sentence down, the sentence reads, "However, the reserve, referred to above, will not be required." I think we should just strike that sentence. The reserve fund is not spending and doesn't belong, I don't think, in the paragraph.

Further, "The PIT forecast is approximately $1.8 billion higher than the figures released in the 1997 budget," period, and eliminate "last year and higher 1996 assessments."

I apologize. There's one other, in the third line down. It says "and transitional expenses." Just for purposes of clarity it should be "and social services realignment transitional expenses." I just wanted to clarify those points.

The Chair: The suggestion is that in paragraph 2 we eliminate the reference to $55 billion and simply state $56 billion. In line 3, after "charges," we add "and social services realignment transitional expenses." We eliminate the sentence starting, "However, the reserve,..." Then in the last sentence it would read "$1.8 billion higher than the figures released in the 1997 budget," period, eliminating the last five or six words there.

Any objection? Carried?

Mr Phillips: Just a moment. What we're referring to there is that it is $1.8 billion higher than originally projected in the budget, right? It's not in last year's budget.

Mr Baird: Yes, you're right.

The Chair: Anything else on page 5?

Mr Baird: In the third paragraph, second line, I would simply strike "permitted" and put "helped." In reading Hansard, on page 1801 they said "is able to," and I think "helped" is probably a better word than "permitted."

The Chair: So take out the word "permitted" and replace it with "helped." Any objection? Carried.

Any other changes on page 5?

Mr Baird: Under "Revenue Changes," I'd change the second sentence to say, "This figure has been attributed to

disaster relief funding and adjustments resulting from the impact of changes in the PIT to," and, for the purposes of clarity, strike "health and social entitlements," to read "PIT to the Canada health and social transfer."

The Chair: You've heard the proposed changes. Any objections?

Mr Phillips: Did the financial officials indicate — I can't remember — how that, changes in the PIT to health and social entitlements, affected Ontarians? I can't remember that in their presentation.

Mr Baird: Beyond saying that there was an increase of about $10 million with respect to some changes made in the PIT federally, which obviously would yield Ontario additional funds — on the income tax there are some extremely small, modest changes that resulted in increased federal income tax, resulting in a $10-million increase in provincial.

Mr Phillips: It's of interest to me because I gather what happens is that, and I'm looking at the financial statement, the cash portion from the government went down by $280 million — is that right? — on the health and social transfers. Does that mean the tax portion went up by $290 million?

Are you following, Mr Baird? I'm on page 5, where you said that there was a $10-million difference. I'm on, I think it is, the government's financial statements. Is the $10 million net the difference between — there's a $280-million decrease on the health and social transfers offset by a $290-million increase —

Mr Baird: I'd be happy to find out the answer to that question for you. I'm just going to note that question.

The Chair: Anything else on page 5?

Mr Baird: Under "Operating Expense Charges," the second bullet, just one thing I wanted to clarify, to add at the end to "stable funding," to insert "for the former Metropolitan Toronto School Board and the former Ottawa Board of Education."

The Chair: Accepted?

Any other changes on page 5?

Mr Baird: Just a final one. Under the last bullet on page 5, "An additional $900-million provision was put into...for 1997-98," and then strike "which was added in 1996-97," again just to clarify so it's crisp.

The Chair: So insert the word "provision" after the word "million" in the last bullet on page 5 and eliminate the last five or six words.

Mr Baird: And after "'restructuring and other charges'" insert "for 1997-98."

The Chair: Agreed?

Mr Silipo: I just want to be sure that we're not changing what's actually happened, because as I read this bullet I understood this was reflecting the fact that $900 million was put into restructuring and other charges from the 1996-97. This gets into the part of that whole discussion about moneys that were put into one year but not spent. I'm just a little concerned that in the way Mr Baird is suggesting we reword it, that reference to 1996-97 disappears. I think it maybe changes the context a little.

Mr Baird: Just the way we do accrual accounting, the way the Provincial Auditor has insisted that we operate on the accrual accounting system, if a particular decision is announced and is booked towards that year, I guess with the title "Operating Expense Changes," I think it clarifies the fifth bullet, that it is for 1997-98 while perhaps announced in 1996-97. Just under the category "Operating Expense Changes," I think it should be explicit and crisp.

The Chair: Any other questions? Does page 5 carry, as amended? Carried.

Page 6: Any additions and deletions?

Mr Baird: The top bullet, second sentence, stylistically, to delete "The addition to" and just read, "These transitional measures have added $559 million to the operating expense."

1100

The Chair: Accepted?

Anything else on page 6?

Mr Baird: Under "Capital Expense Changes" — this is referenced to page 1798 of Hansard — just for purposes of clarity when someone's reading the first bullet: "Disaster relief for public agencies and municipalities, as a result of the recent severe ice storms in eastern Ontario."

The Chair: Accepted?

Anything else?

Mr Baird: Second bullet, same reason: "Local services realignment, capital transitional assistance and funding to facilitate the transfer of developmental service clients out of large institutional settings." Again, it's just so when someone reads this they'll know what we're talking about.

The Chair: Accepted?

Anything else on page 6?

Mr Baird: Just to reword, under "Restructuring and Other Charges," with the same purpose in mind — I'll just read it as it would read. That would be easy.

"The total provision for restructuring and other charges in 1997-98 is $1.5 billion, an increase of $900 million from the 1997 budget provision. These expenditures will support health care and municipal restructuring, for example, as well as other necessary investments that may arise from the government's efforts to ensure the efficient and effective delivery of public services."

Again, just for clarity, one thing I found —

The Chair: Just a minute. Is it accepted as read?

Anything else on page 6? Is page 6 approved as amended? Thank you.

Page 7.

Mr Baird: I have just one comment. I was wondering if on the expert witnesses page, page 7, just to split it up appropriately, the economists could appear in order of caucus selection one round at a time, meaning government, opposition, third party, government, opposition, third party, rather than the order that they're in.

Mr Phillips: I don't even remember who we put on our list. I really don't.

Mr Baird: I do.

Mr Phillips: Enemies of the state.

The Chair: A lot of us have difficulty believing some of them were our picks.

Mr Baird: We had a few surprises. The Royal Bank was not our selection, I'll put for Hansard.

The Chair: This is alphabetical, not as they appeared. You want them —

Mr Baird: What I wanted was that they appear on a rotation basis, so that it breaks up the report both in terms of —

The Chair: Help us out here. How would they then list, by name?

Mr Baird: Government, official opposition, third party, then repeat.

The Chair: No, by name. Who were the government ones first?

Mr Baird: For example, Sherry Cooper was government, Hugh Mackenzie was third party, I believe John McCallum was the official opposition, Informetrica I believe was the third party, Catherine Swift was the government, Scotiabank —

The Chair: If you don't know, we'll pick it out of the records here, if it's passed. Mr Phillips has a comment.

Mr Phillips: Let me just strongly object to this. Our caucus just tries to get who we regard as knowledgeable on the economy. I think we put down the names of four bank economists. But if they are going to be identified as Liberal witnesses, I won't do it in the future.

Mr Baird: I wouldn't want to identify them in the reports, just in order.

Mr Phillips: But the Hansard will say, "Put them in order." If this is the way you want to work, where you are friends or enemies of the state —

Mr Baird: That was not my intention.

Mr Phillips: Well, for God's sake, why would you put down — I really literally will not in the future submit names, because I don't want the Royal Bank feeling they are now regarded as the mouthpiece of the Liberal caucus and the enemy of the government.

Mr Baird: People can check out some of the members of our caucus on Hansard and not know this on the issue of friendship.

Mr Phillips: But if it were that they were here representing the Liberal caucus, I would not put their names down.

Mr Baird: My only purpose in doing that was to split them up so we get a variety of opinion presented in the report. That's a fair point. I didn't take it from that angle. That's a fair point, and I can withdraw that suggestion.

Mr Phillips: Neither of those would ever regard themselves nor any of the bank economists as supporting one of the other parties. They would not come if they thought that was how they would be identified.

The Chair: I think you're absolutely correct.

Mr Baird: That was not my intention, but it's a fair point.

The Chair: It might be appropriate to indicate then that they appear alphabetically.

Mr Phillips: If in the future we say, "Bring forward as spokespeople," then —

Mr Baird: I withdraw it.

Mr Phillips: I agree, if we just put them alphabetically.

The Chair: All right, but that's the way he has done it.

Mr Phillips: That's fine.

The Chair: But I would like to indicate here that they appear alphabetically as opposed to order of importance or order of preference of the positions they made, that the submissions indicate that's the way we're doing it.

Mr Kwinter: The only problem I have with that is that you then have to decide if they are appearing by virtue of their personal names or the organizations they represent. I think when we invite them, we invite them as their organizations and not as individuals. It would seem to me that you start to get into some very serious problems.

The Chair: So you want to list them alphabetically as per their employers.

Mr Baird: But that's not the case. For example, Hugh Mackenzie appeared, and he was very clear that his comments were his own feelings and not necessarily those of the Steelworkers, while the Steelworkers may agree with just about everything he had to say.

The Chair: I withdraw the suggestion, since you haven't voted on it, that we put them alphabetically.

No changes to page 7. Agreed as read? Carried.

Page 8.

Mr Baird: I just have a few stylistic changes. Under "Catherine Swift," last sentence, second-last line, just the term "surplus jobs;" I prefer the term "unfilled jobs." I don't think she said "surplus." I just don't like the word "surplus" when talking about jobs.

The Chair: Let's go back to her submission and see how she described it. If she used the word "surplus," the word "surplus" remains; if she didn't, we'll change it to "unfilled."

Mr Baird: Terrific, and the last line, just after "high technology," rather than "resulting in a structural problem," I think "indicating a structural problem" would give greater clarity on her presentation.

The Chair: "Indicating" replacing "resulting." Accepted? Page 8 carries.

Mr Baird: I have just two more. Under "Scotiabank," just a clarification. From what I read, I think "A debt ratio of no more than 17% in 10 years should be the policy target" more accurately represents his comments in Hansard. There's no policy change, just to make it clear.

The Chair: Accepted?

Anything else?

Mr Baird: Just one other one, under "Fiscal Commentary" — no, it was fine.

The Chair: Nothing else? Thank you.

Page 8, as amended, carried? Carried.

Page 9: Any additions or deletions? Carried as read?

Page 10: Any additions or deletions?

Mr Baird: Just two very quick insertions. Under "Personal Income Taxes," going down, when they list, right after the Ontario Real Estate Association, there were a few that were missed. I would insert the Ontario Chamber of Commerce, the Canadian Taxpayers Federation and the Ontario Natural Gas Association. Then just in the next

sentence, "support for this initiative" not "initiatives." Just remove the "s." That's it.

The Chair: Anything else?

Mr Phillips: The federation had several recommendations. Are we dealing with all of them?

The Chair: I seem to recall —

Mr Silipo: They should be added later on.

Mr Phillips: They come elsewhere?

Mr Silipo: They come elsewhere.

Mr Phillips: Okay.

The Chair: Page 10, as amended, carries? Carried.

Page 11: Any additions or deletions?

1110

Mr Baird: Just a quick question. I wonder if I could ask research just to go back and confirm. The Ontario Trucking Association, I just would ask you to doublecheck that statement. Perhaps you're right, I didn't have the opportunity to check it before this morning. I would just ask you to doublecheck.

The Chair: Your question is with regard to what?

Mr Baird: Under "Harmonization," I'm concerned that conclusion may not reflect what the Ontario Trucking Association said, and I would ask that they confirm.

The Chair: All right. We'll confirm it.

Does page 11 carry? Carried.

Page 12, any additions or deletions? Is page 12 carried as read? Carried.

Page 13, any additions or deletions? Is page 13 carried as read? Carried.

Page 14, any additions or deletions? Carried as read? Carried.

Page 15, carried as read? Carried.

Page 16, carried as —

Mr Baird: No. Again, this is just stylistic. Under "Student Assistance/Accessibility," just for clarity, "The ability of students to complete their education with the increases" rather than "continue in the system." It just sounds a little bit awkward.

The Chair: Anything else?

Mr Phillips: I'm sorry. I had one on 15, Mr Chair.

The Chair: We'll deal with 16 and go back to 15 if it's the wish.

Anything on 16? Carried as read? Carried.

Mr Phillips wishes to go back to 15.

Mr Phillips: At the top, that the Minister of Finance indicated the way to resolve the tax rate inequity was a uniform commercial-industrial tax rate across the province, did he say that in his remarks? Do you have a reference to Hansard?

Ms Lorraine Luski: I can check.

Mr Phillips: That's fine. We'll look later.

The Chair: Page 15 is carried, with that question.

We have carried 16, as amended. Page 17.

Mr Baird: Just one small change in the second-last paragraph, "the Council of Ontario Universities," not just "the Council of Universities."

Mr Phillips: You've been a busy fellow over the weekend.

Mr Baird: I do my homework.

The Chair: No substitute for a good staff.

Mr Baird: You can imagine how my staff feel when I do correspondence. I look over to my staff and he's not looking up.

Mr Phillips: I picked up all these things myself. I didn't want to be nitpicking here.

The Chair: Page 17, as amended? Carried.

Page 18, additions and deletions?

Mr Baird: With the same spirit in mind as the last one, under "Knowledge-Based Firms," the second paragraph, last line, "14,000 graduates and there will be an estimated demand for," just for clarity.

The Chair: Accepted?

Anything else? Page 18, carried, as amended? Carried.

Page 19, carried as read? Carried.

Page 20, carried as read? Carried.

Page 21, carried as read? Carried.

Page 22, carried as read? Carried.

Page 23 —

Mr Baird: It was a long night, so gradually, as I went on, I got more —

The Chair: — carried as read? Carried.

Page 24, carried as read? Carried.

Page 25.

Mr Baird: I did get a second wind late at the office though. Under "Child Welfare," just a number of stylistic changes and for clarity. The fourth line, "It showed that 74% of children are" — I would strike "turning out fine" and put "developing well," "but 26%" — I would strike "are in trouble" and insert "have one or more academic and/or emotional and/or behavioural and/or social problems." Just stylistic.

The Chair: Anything else?

Mr Baird: In the second paragraph, the second line, "to social programs that support child development," and then instead of "Programs which assist," "Programs which support child development" again, and then in the second-last line, it would say, "society pays later through a lower quality of community life and a less productive workforce." Again, the same message, but just more crisp.

The Chair: Page 25, as —

Mr Baird: Sorry, I have one more. In the second-last paragraph, the third-last line: "...that the Minister of Community and Social Services be prepared to act on the upcoming recommendations." Again, it's just stylistic.

There is one more. In the last line just omit "matters of" so it's "would address income security."

The Chair: Page 25, as amended? Carried.

Page 26.

Mr Baird: Under "Child Care and Early Childhood Education," when you read their submission in Hansard, February 13, page 1917, I just want to clarify — and I think it accurately reflects what they had to say on that page of Hansard — by adding a first sentence: "The Ontario Coalition for Better Child Care believes that it isn't how much money is spent, it's how it's spent." And then, "However, cuts to." The reference there is to page 1917, if people want to —

The Chair: Agreed? Page 26 as amended? Carried.

Page 27.

Mr Baird: My comments on the sectors of small business and high technology have already been made. Just two small changes under "Agriculture": "The Ontario Federation of Agriculture identified several matters of concern. They felt the government could extend provincial compensation." Strike "the need for."

At line 4 there's a semicolon, then just omit "and to."

The Chair: Agreed? Page 27 as amended? Carried.

Page 28.

Mr Baird: In the top paragraph, again with respect to agriculture, in the second line: "expand funding to Ontario's safety net programs; provide adequate resources to municipalities." We should strike out "should be available" just to be crisp.

The Chair: Anything else on 28?

Mr Baird: Under "Construction and Transportation" — again just to put my cards on the table, Hansard of February 16, page 1978 — I would add a sentence ahead of that, under "Infrastructure" and just before "The construction industry" to read: "The Council of Ontario Construction Associations said things are starting to turn around for their industry and paid gratitude to the government. They did, however, say they are concerned about the ability of the construction industry" blah, blah, blah. And then, just for clarity under that same paragraph, strike "provincial highways." I think it's more appropriately "municipal roads and bridges." We don't give provincial subsidies for provincial highways because they are obviously the property of the government; it was the municipal roads and bridges.

The Chair: Agreed? Agreed. Anything else on 28? Does page 28, as amended, carry? Carried.

Page 29.

Mr Baird: At the top, the first line, for stylistic reasons I would strike, "In order to provide long-term planning for the provincial highways system." I would strike that and just put: "The Ontario Road Builders' Association recommended" and finally, at the end of that paragraph, "which would permit the industry to plan accordingly."

The Chair: Anything else on 29? Does page 29 as amended carry? Carried.

Page 30.

Mr Baird: I've got a number of changes on this, generally clarifying and stylistic. In the first paragraph, the last sentence, I would strike the last two words, "tax policy," and insert "government interventions such as tax incentives."

With respect to the credit unions, in the fifth line of the second paragraph, instead of "cost to banks," I think just to be crisper it's "the rate for banks" of the deposit insurance.

1120

The Chair: Anything else on page 30?

Mr Baird: Under "Access to Capital," I have a number of stylistic changes. In the first sentence, I would strike "in securing the necessary business financing." That could be taken out.

In the third line: "must go public to raise financing, an expensive proposition, with risks involved."

At the first bullet, "The role of a renewed Ontario Development Corporation," and then farther down in that bullet, "To ensure that there are adequate controls on such a corporation, the banks should participate by offering."

At the third bullet, "The federal government has provided assistance through the Small Business Loans Act which is administered mainly by the banks."

Then I have some substantive changes under "Forestry." Maybe I should just read it.

The Chair: Just one second. With regard to that, you said the third bullet?

Mr Baird: Yes. I would just put, "which is administered mainly by the banks."

The Chair: And then with regard to "Forestry" on page 30?

Mr Baird: I would strike a substantive part of that, so maybe I could just read what it would say.

"The forest industry, represented by the Ontario Forest Industries Association, suggested that the province continue to reduce red tape, review regulations for their relevance, maintain a market-based stumpage system and design policies and taxes to encourage sustainable economic development." I would strike the second line from "it" to "sustainable" and replace it with what I gave, again just to be crisper.

Mr Silipo: Sorry, but the industry did also say what is in those first couple of lines, that it needs assistance following the reduction of government services in single industry towns. You're not suggesting we take that out, or are you?

Mr Baird: I did, but that's a fair point.

Mr Silipo: That reflects what they said. If you want to reposition it, that's fine —

Mr Baird: I did, but that's a fair point, so if that point could be taken into account.

The Chair: We want to retain the nub of the first sentence, that "it will need assistance following the reduction of government services in single industry towns." That's accepted, and then redraft as —

Mr Baird: Yes, leave that sentence in. I did say to delete it, but it's a fair point.

The Chair: Page 30, as amended: Carried? Carried.

Page 31.

Mr Baird: Again on the forestry side, I would strike that half of the sentence, "economic development through capital investment," which is from the previous page, and then change the rest to read as follows: "The industry is concerned about its cost competitiveness, the Lands for Life land use planning process, Ministry of Environment cost recovery proposals and Who Does What restructuring cost implications for northern municipalities." Again, that's just to be crisper.

Mr Kwinter: I haven't checked the Hansard, but are you suggesting that when they say they are concerned about their capacity to contribute to social programs, you want that out?

Mr Baird: Let me just take a moment and I'll check that. That's a fair point.

Mr Kwinter: Mr Baird, my point is that if they said it, I think it should be in.

Mr Baird: Agreed. Why don't we just have the research service check it, and if it is, fair point.

Mr Silipo: I have the same concern with respect to that last point in the section, about their concern that the future of northern communities depends on the sector.

The Chair: We'll leave it with the researcher, that if it was said, it belongs there. Anything else on 31?

Mr Baird: Yes, under "Housing and Real Estate," in the first paragraph, the second-last line. One is for clarity and then there's something to add. First, "which is partly attributable to move-up buyers, stable interest rates and rising consumer confidence." Then I'd add a further insertion in that paragraph: "When questioned, the association replied that job creation is the single most important determinant affecting the housing market."

The Chair: Anything else on 31?

Mr Baird: Under "Mining," the second-last line, and these are purely to clarify: "The association is concerned with the status of financial self-assurance for mine closures and cleanups." That just seeks to clarify exactly what they said.

The Chair: Accepted. Is 31 carried, as amended? Carried.

Page 32.

Mr Baird: In the second paragraph, I have a clarification and an addition so that instead of what it says it would read:

"Mining is a knowledge-based high-technology industry. About 5% of the workforce is employed in engineering, scientific research and development positions, but mining is also a cyclical industry largely dependent on the global economy. Recently it has experienced low prices in gold, nickel and copper, but its longer-term outlook remains promising as exploration expenditures have increased in recent years."

Again, the latter part came from their presentation.

The Chair: Anything else on 32?

Mr Baird: In the last line I would strike out "student" and insert "classroom": "A prescribed percentage of classroom funding," rather than "student funding."

The Chair: Is 32 carried, as amended? Carried.

Page 33.

Mr Baird: Just two or three stylistic changes. At the fourth bullet under the Ontario Restaurant Association, just to clarify, it should read, "The PST threshold for restaurant meals should be raised from $4 to $6." Then under "Wineries," in the second paragraph I'd take out the word "by" and insert "of," and in the second line omit "which is."

The Chair: Agreed? Agreed. Anything else on 33? Page 33 is carried, as amended.

Page 34: Carried as read? Carried.

Page 35.

Mr Baird: The third paragraph sounds a bit awkward. Perhaps "CUPE suggested that renewed public sector investment in health care, education and social programs" — and then it doesn't say what. I think it would be fair, and the others can correct me if I'm wrong, to say, "CUPE suggested that renewed public sector investment in health care, education and social programs will generate decent-paying jobs and provide stability for Ontario's economy." I think that's a fair reading of what they said.

The Chair: Anything else on 35? Does page 35, as amended, carry? Carried.

Page 36: Carried as read? Carried.

With regard to the special witnesses, appendix A, any additions or deletions?

Mr Baird: On page iii, under "McCallum, John," "Forecasts for 1998-99," at the first bullet, the second line, "the second highest rate in Canada, 0.3% above the national average" I think more accurately represents what he said.

The Chair: Does everybody understand what is suggested? Agreed? Carried.

Mr Baird: On page v, just two stylistic things. Under "Swift, Catherine," in the second line I would say, "medium-sized businesses," and then put a comma after "spending" in the last line.

The Chair: Anything else?

Mr Baird: Page vii: Again, this is just a concern of mine with "surplus." At the top of page vii, "surplus jobs," I think the word "unfilled" is better.

The Chair: Yes. If it's changed back on page 8, it'll be changed here. Anything else?

Mr Baird: No.

1130

The Chair: I know we said we'd go page by page, but I foolishly assumed that there would be no changes. Is appendix A carried, as amended? Carried.

Any additions you want to make to the witness list?

Mr Baird: Can we be retroactive?

The Chair: Carried as the rest? Thank you.

Mr Silipo: If I could, Chair, there was actually one very minor change back on page 9, which I think is just the computer being too eager. At the bottom of the page, the third-last line —

The Chair: We're now under "Balanced Budget — Surplus"?

Mr Silipo: No, page 9 of the actual report, not the appendix. I had this written down somewhere else, so I didn't pick it up before when we went through it. The word "public" just appears twice. I think what it's supposed to say is "the government should engage in a public dialogue," so just take out the first "public."

The Chair: Agreed?

Mr Baird: I can't believe I missed that.

The Chair: There'll be a change in the staff in that office, I'll tell you.

That amendment to page 9 is carried.

Just give me one moment here with our staff. I should go on record as telling you that a tremendous volume of information was put forward before the committee, some excellent submissions, and I commend the staff for the draft that they presented to us today. I think, from the type

of amendment and the type of comment that has been made, the accuracy is underlined in the work that was done on a very limited timetable. We thank you for your efforts and for your extended effort in meeting the deadline.

My question is with regard to the changes.

Mr McLellan: As far as the timetable is concerned, first of all, I'd like to say there were a couple of points raised this morning that we'll have to get back to, if we can just have the lunch period to do that and respond when we come back at 2 o'clock.

With respect to these changes, I think that tomorrow morning would be an appropriate time to bring a revised document back. I think we meet at 10 o'clock tomorrow. Is that appropriate?

The Chair: Let me ask you this: Why would we come back this afternoon? Why wouldn't we do everything at 10 tomorrow morning?

Mr McLellan: That's up to you.

The Chair: It's really up to us, but I want to know what's easiest for you. Are you afraid that some of the changes may require a second change? Is that why you want to come back this afternoon with it?

Mr McLellan: I'm in your hands. It's just a matter of going back and being able to respond to some of the questions this morning and to look back through the submissions, first of all. Second, to get the changes as passed may take a few hours. In other words, I'll need some time to do that. If the committee decides to come back tomorrow morning, that's certainly appropriate and would fit within my timetable.

Mr Baird: Could I just make a comment? I echo your comments, Mr Chair. I had never sat on a committee that did a report-writing phase and I met with a number of folks to find out how that was done, and it's extremely professional. I think the fact that there are no significant discussions on just about any issues says a great deal in terms of the professionalism that the report was written with.

You've got to go away and come back with another draft. We've discussed at the subcommittee the potential that when a final draft is ready we could just have the sign-off of the three caucuses, and if there was agreement to do that, that's fine with me. There don't seem to be any really contentious issues. You've jumped through hoops to get us this far, and I don't have any objection if you want to take a couple of days and then just have sign-off from the three caucuses after the fact, obviously with the recommendations being amended. I wouldn't have any objection to that.

The Chair: Suggested by Mr Baird that it be a simple matter of signing off, and I assume his suggestion there is that we do not have to come back tomorrow morning.

Mr Baird: That would depend on how quickly we were able to deal with the recommendations.

The Chair: I mean for this. We're just talking about what we're dealing with as far as the time is concerned.

Mr Baird: Because if they were to come back with recommendations tomorrow morning, we'd probably have to recess for two hours to read the 30-page document to see whether we were comfortable with it, and I think that's unfair and unlikely.

The Chair: With regard to this section that we've dealt with.

Mr Silipo: If it helps, Mr Baird's suggestion about how to deal with the content of the reports to date is, as far as I'm concerned, an appropriate way to go. We don't need as a committee to come back, unless members want to, and actually go through the whole thing again. We agreed as the changes were being proposed, so it's only a question of having a chance to look at them and make sure they are there. I trust very much the process so far, so on that score I would be comfortable with the suggestion to simply have them vetted through the subcommittee.

The Chair: Very well then. It's moved by Mr Baird that as far as the written report is concerned, we provide this staff with additional time to resubmit and as agreed to by the subcommittee, that allowing for this procedure — I believe we did discuss it — that we would then have each caucus sign off without having the committee reattend.

Mr Baird: And that would presume that we could sign off unanimously. If any of the parties had a concern they wanted to bring back to the full committee, that wouldn't be a problem. I doubt very much that would ever happen.

The Chair: Let's deal with this motion. Are we agreed? All in favour?

Mr Kwinter: Just on a point of order, Mr Chairman: May I suggest that the research staff, when they prepare the amended report, highlight where the changes were made so you don't have to read through the whole thing all over again to see where they are. Just spot where the changes were made so you can compare with the original to see how the changes were made.

The Chair: That will be done. With regard to Mr Baird's motion, all in favour? Contrary, if any? Carried.

Having done that, if we're not coming back, it is suggested to me that we will require a motion that the subcommittee be allowed to adopt the report, translate the report and have it printed and that the Chair be authorized to present the report to the House.

Mr Phillips: The second part of the report we haven't dealt with, which is the recommendations. I don't know whether we want to wait till we've dealt with the recommendations before we move that motion.

The Chair: This will just deal with the part we've dealt with.

Clerk of the Committee (Ms Tonia Grannum): This would be just giving authority to the subcommittee, because if we don't come back to the full committee —

Mr Phillips: The full committee will meet this afternoon.

Clerk of the Committee: We're coming back this afternoon?

The Chair: We have to deal with the —

Mr Phillips: — recommendations.

Clerk of the Committee: Okay.

Mr Baird: I think Tony has a caucus meeting to go to.

The Chair: Yes, we can. Very well.

Mr Phillips: The next step was for each of us to present our recommendations, if I'm not mistaken. Ours are in the final drafting stage now, but will be ready for 2 o'clock this afternoon, if we want to deal with them this afternoon.

Mr Silipo: I have them here now. We can deal with them now or this afternoon.

Mr Baird: I have mine here now too.

The Chair: What's your wish? Wait till 2 o'clock or do you want to —

Mr Baird: Just to ask the expectation of how long the phase of the recommendations would take. Would we be better off to start now with one of the parties or would we be better off to start at 2 with all of them? Is there a chance we could get them done in the afternoon, or is there a necessity for us to come back tomorrow? I just wouldn't want to see us lose —

Mr Silipo: Can you do yours in 20 minutes? Could you present yours and then I get the remaining time between now and noon?

Mr Baird: I could certainly present them.

The Chair: Let's do that.

Mr Silipo: Why don't we do that and we can pick up with ours in the afternoon.

The Chair: Is that your wish? We'll proceed with the government recommendations? Very well.

Mr Baird: In tabling the government recommendations, I assume we can get copies of the opposition parties' as well.

The Chair: Mr Phillips, did I hear you say you don't have yours here?

Mr Phillips: No. They'll be ready at 2. That's right, Mr Chair.

The Chair: They won't be ready till 2?

Mr Phillips: They will be ready at 2.

Mr Baird: Oh, you don't have them now. If we could get the third party's, then presumably we could do the third party's first, before the official opposition's, just so we'd have some time to review the recommendations, if there's no —

Mr Silipo: I don't care.

The Chair: It's suggested that, because Mr Silipo has his here now, after dealing with the government recommendations we would then deal with the third party's recommendations, allowing some time to review the opposition's. Is that it?

Mr Kwinter: The concern I have is that my experience in the past has been that if the government has a recommendation and the other two parties have recommendations and some of them are at variance, sometimes you can make an accommodation by amending one or the other; you come up with one recommendation that everybody agrees to that encompasses what people are suggesting. As long as we're missing ours, because we didn't anticipate that we'd be doing that, we may have to go through it again. It seems to me — we're at 15 minutes to 12 — that we'd be better off starting at 2 and having all the recommendations, so if there are some adjustments that can be made we should do it.

Mr Baird: Is there a potential to get the official opposition's recommendations for 1:30, just so we can have an opportunity to review them before we start?

Mr Phillips: I'll try, sure.

Mr Baird: If that could be tried, that would be appreciated.

The Chair: I think Mr Kwinter makes a valid point.

Mr Baird: Sure, if that's how you feel. That's not unreasonable.

The Chair: Can we reassess our situation and recess now until 2 o'clock and hope to have the Liberals' recommendations as soon as possible?

Mr Baird: Sure.

The Chair: I have a motion to recess until 2. All in favour? Carried.

The committee recessed from 1142 to 1406.

The Chair: Order. We have a quorum to deal with the recommendations, and I think it was agreed we'd start with the government positions first.

Mr Baird: The government has presented 20 recommendations, considerably more than the other parties. I don't mean that with any intent. In terms of process, do I move each one individually? Some are self-evident and require perhaps demonstrably less discussion than others. Is that how it would operate?

The Chair: It's open to whatever the committee feels.

Mr Baird: Can I move them all in one?

The Chair: I would expect that we deal with them one at a time. I would suggest that's the way we proceed, unless we have an agreement to the contrary.

Mr Baird: Recommendation 1: "The government should honour its commitment to deficit reduction and balance the budget by the fiscal year 2000-01."

The Chair: All those in favour? Contrary, if any? Carried.

Mr Baird: Recommendation 2: "The government should fulfil its commitment to reducing personal income taxes to stimulate job creation, investment and consumer confidence."

Mr Phillips: We have some substantial difficulty with this. I looked at the national personal income tax revenue versus the provincial personal income tax revenue over the last couple of years. I think nationally the personal income tax revenue is up about 11%. Here in Ontario it's flat, is the way I look at the numbers: $16.3 billion in 1995-96 and $16.3 billion this year. Had we had the same rate of growth in Ontario as the national numbers, the deficit would have been $2.5 billion lower.

I also actually took a look at the GDP numbers nationally and here in Ontario over the last two years, and while 1997 was a good year in Ontario, 1996 was quite a weak year — surprisingly weak, actually. On the two counts, one is that it appears it has cost Ontario roughly $2.5 billion worth of revenue in 1997-98 from the income tax cut, and there's not a lot of evidence on the GDP numbers that it has meant a substantially larger growth in Ontario than nationally — 1997 was better and 1996 worse.

The third thing of course is that if the deficit is such a huge problem — and I think all of us agree the deficit is a

problem — I wonder how we can afford to be giving people who are making roughly a quarter of a million dollars a year a tax break that is worth roughly $500 million.

All of us now face general problems in our hospital emergency wards, significant problems in our municipalities with the downloading and significant problems in education funding things like junior kindergarten, but at the same time we can fund a tax break that will give people making more than a quarter of a million dollars a $500-million tax break.

As I say, there's no doubt — you look at the revenue numbers provincially and federally, with federal income tax revenue up over two years roughly 11.5% and provincial income tax revenue flat — that if we had the same growth as the federal government did in income tax revenue, the deficit would be $2.5 billion lower, and presumably, without any question of a doubt, the budget would be balanced. This budget that the government will announce in roughly a month and a half would be balanced without the tax cut. There's no question of that. For all those reasons, our caucus has substantial difficulty with recommendation 2.

Mr Silipo: This is a recommendation that we in the New Democratic Party strongly disagree with. I think it's no surprise. We find that even if you were to take the government's argument that the deficit needs to be tackled, as we would agree and in fact supported the first recommendation, there is ample evidence to indicate on the one hand that the tax cut has not generated the job growth, the investment and the consumer confidence this motion suggests it does, and second, it isn't necessary to do the income tax cut to achieve the balanced budget.

There's enough evidence that would show to this committee in this round of pre-budget hearings, and I know in the past, that in fact the government could be reducing the deficit. The government also would not be adding to the debt, as it is doing by proceeding with the tax cut, and still would have been able to achieve the deficit reduction targets.

For those reasons alone, we would be against this particular motion. But when we add to that the cost of the tax cut both in terms of what it has meant in terms of the unequal sharing of the benefits — 18% of the tax cut benefits go to the top 3% of taxpayers, those who make six-figure salaries, against the very, very small amount of money that goes to the average income taxpayer and the average family in the province — and then put that up against the costs in terms of the loss of services in our health care system and in our school system that we have seen and will continue unfortunately to see, there is no way in which we either can buy the logic or see the sense, common or otherwise, of the government proceeding.

Although I certainly don't purport to claim any ability to convince the government to do otherwise, I think that more and more government members and supporters must be realizing that the costs of the tax cut far outweigh any minute benefits we might be seeing from this policy. I had hoped that there might have been some room for the government to actually have some room left for not proceeding with the balance of the tax cut, because, as I say, I wouldn't expect they would be prepared to undo the decisions they've made so far, but I take this motion from Mr Baird as being an indication that the government is going to continue to railroad ahead and ram ahead with the next instalment of the tax cut, and that will mean we will continue to see the impacts in terms of further cuts to our education, school and health care systems at the very least.

Mr Baird: I'll be very brief. Cutting taxes would simply not make sense if one's only objective was to balance the budget. That's an important objective, one that we would all place great priority on, but job creation is the top objective. To simply say to the unemployed young person, "Please wait until we balance the budget," or to the young family that's struggling to be able to provide and raise their family, who is feeling the pinch of high taxes, "Listen, I'm sorry, please wait until your government balances the budget," I think would be wrong.

With respect to tax revenue, while the personal income tax revenues have not been increasing at perhaps the substantial rate that other jurisdictions have, just from the third quarter reports, you see retail sales tax revenue up, corporation tax revenue up, gasoline and fuel tax revenues up, tobacco tax, land transfer tax and mining profits tax revenue up. At the same time, the federal government this year will cut almost $1 billion; we'll get almost $1 billion less on the Canada health and social transfer than we got last year, which is substantial. That causes us concern.

I look to one of the expert witnesses we had from Nesbitt Burns. There are a lot of very talented young people working at Nesbitt Burns. Sherry Cooper said, "The personal income tax cuts…have gone a long way towards reviving consumer confidence and spending." The tax cuts are working and job creation is their goal.

The Chair: Any further comments? Ready for the vote? All those in favour?

Mr Wayne Wettlaufer (Kitchener): Recorded vote, please.

Ayes

Arnott, Baird, Jim Brown, Rollins, Wettlaufer.

Nays

Kwinter, Phillips, Silipo.

The Chair: Carried.

Mr Baird: Number 3, "The government should continue its commitment to reducing job-killing payroll taxes, particularly for small business."

Mr Silipo: I have mixed feelings on this. I heartily agree with anything that can be done to reduce payroll taxes because I'm convinced it is one of the criteria that small businesses use to determine the extent to which they can hire new people. But I also have problems in a couple of major areas where the government has acted, where I see what that also means when that's put together with other changes. The one that comes to mind is what the

government has done in the area of workers' compensation, where the reduction in premiums has gone side by side with the reduction in benefits to injured workers.

If that's the kind of thing the government intends and means by killing or reducing payroll taxes, then I don't think it creates the kind of climate that balances the very important issues that need to be balanced — on the one hand, making it more attractive for small business particularly to invest and to create new jobs, but at the same time, where that is done by simply taking rights and benefits away from working people, particularly using the example of injured workers, then I find that offensive and I find that wrong and I can't support that.

I don't think I'm going to support the recommendation, but I wanted to be clear in placing my comments on the record that it's because of the way in which I've seen the government proceed to take actions in this kind of area and not because I am against, or we as a party are against, the idea of reducing payroll taxes, because we do think there is merit.

When we were the government we took some steps to reduce some payroll taxes, particularly as we tied them to the creation of new jobs and provided employers, particularly small business employers, with incentives to do that. I think that's the kind of approach that makes sense, particularly where you make that direct link between reduction in payroll taxes and job creation. Where it doesn't work and where it's wrong is the kind of thing the government has done in the area of workers' compensation, where you equate on the one hand reducing payroll taxes or premiums for employers in that case with the reduction of benefits for injured workers. That's not the kind of thing we should be doing.

Mr Phillips: The idea here that it's helping small business: I'd just remind us that more than offsetting any of this will be the changes in property taxes. With the elimination of the business occupancy tax, there is no doubt — it was actually a year ago, almost exactly, in this committee that we raised it with the Minister of Finance, saying, "Tell us again how this is good for small business property taxes, to take roughly $5 million per bank tower off property taxes and put it on to small business."

The reason I raise that is the implication here that there's a real concern about small business, but what's happening on the business occupancy tax is that small businesses — whatever savings may have been available from the employer health tax is going to be offset probably three to four times with the restructuring of the business occupancy tax, where small businesses are looking now at a 10% property tax increase and the banks, as I say, are looking at a 15% to 17% decrease in their property taxes. It's always a bit difficult — and opposition continues its commitment to small business — when we see that those things are happening with the government on property taxes. As I say, that will eat up probably four or five times the savings on the employer health tax issue.

1420

The Chair: Further discussion? Ready for the vote? All those in favour?

Mr Wettlaufer: Recorded vote.

Ayes

Arnott, Baird, Jim Brown, Kwinter, Phillips, Rollins, Wettlaufer.

Nays

Silipo.

The Chair: Number 4?

Mr Baird: "The government should continue to eliminate barriers to doing business through the work of the Red Tape Commission and other initiatives."

Mr Silipo: This might seem like kind of a motherhood recommendation; maybe it was meant that way. I would actually like to be able to support it, but I can't support it as it's written now, and I'll tell you why. I wonder if Mr Baird would be amenable to a small amendment. It's the reference to the Red Tape Commission, which I know he and his government take great pride in, in terms of a number of the things they have done. I would be able to look at that Red Tape Commission and find a number of things that I would agree with, but there are also some things in terms of the work that group has done that I strongly oppose — some of the moves towards privatization, some of the other changes.

I would be willing and happy to support a motion that simply said, "The government should continue to eliminate barriers to doing business through", if you want to add things like facilitating, whatever. I guess I'm asking Mr Baird if he's prepared to remove the reference to the Red Tape Commission. Then I'd be willing to support it; otherwise I have trouble with it.

Mr Baird: I appreciate the spirit in which you make the request. I think I can speak for my colleagues. We view the work of the Red Tape Commission, both in the past and in the future, as an important part of that effort and see that as a substantial part of the motion, so I'd want to keep it as is. I appreciate your intent.

The Chair: All those in favour? Contrary, if any? Okay.

Mr Baird: Number 6. "The government should introduce legislation mandating a balanced budget."

The Chair: No, we go from 4 to 5.

Mr Baird: I apologize. I'm sorry.

"The government should consider a strategy to address the debt once the provincial deficit has been eliminated."

Mr Kwinter: I have no problem with the intent. I have some problems with the way this is worded. Mr Baird, if you read it one way, it says "consider a strategy to address the debt" and then it says "once the provincial deficit has been eliminated." I understand what you're trying to say: Once the deficit is gone, a strategy to reduce the debt. But when you read it, it might say, "Let's not worry about that until the deficit is reduced." It would seem to me that you should be working on that strategy now, in anticipation of the deficit being reduced. Do you understand what I'm saying?

The Chair: In other words, what he's suggesting is that you say, "immediately consider a strategy to be im-

plemented once the deficit has been eliminated." Do you have trouble with that?

Mr Baird: I'm just trying to think for a moment. I accept your idea; I'm just trying to figure out a way of how we could phrase it.

The Chair: Let me suggest, "The government should immediately consider a strategy to address the debt, to be implemented when the provincial deficit has been eliminated."

Mr Baird: No. How about, "The government should consider a strategy to address the debt for the period after the provincial deficit has been eliminated"?

Mr Kwinter: I kind of like what the Chairman had to say.

The Chair: He's more Conservative than — what did Bill Davis say about you? I'm starting to get back in Davis's good books.

Anyway, what is your proposal?

Mr Baird: "The government should consider a strategy to address the debt for the period after the provincial deficit has been eliminated."

Mr Silipo: I could actually live with either of the two wordings on that part of it, but I do think that there is another piece that needs to be added to this. I don't know whether Mr Baird is amenable to this — I hope he is — which is simply to add a couple of important words which would indicate the need for the balance to be maintained between — sorry, maybe simply doing it by just tagging words at the end of this of the nature of "keeping in mind the need to provide adequate funding for important services like health care and education." It's just a shorthand way of getting at the need for —

Mr Baird: I think they are two separate issues. I accept the importance of maintaining a first-class health care system and a first-class education system. I think they are two separate issues and there are issues in the other recommendations that deal with those topics. I think it goes beyond the scope of the recommendation. For example, what about post-secondary education, social services? There's a whole host of other public policy issues.

The Chair: The amendment, then, is as proposed by Mr Baird. Do you want it read? Understand it? Ready for the question? All those in favour? Contrary, if any?

Number 6.

Mr Baird: "The government should introduce legislation mandating a balanced budget."

Mr Silipo: I just put on the record our opposition to this. We expect that probably in the new session we're going to see actions taken by the government to bring in provisions that would require referenda before taxes could be increased. We've gone through that and we'll go through that again in terms of how inconsistent we believe that position to be with what the government has done so far and continues to do in terms of shifting taxes on to the property tax base and other bases of taxation, in effect. There's that inconsistency.

The issue of legislation mandating a balanced budget is for us similar and very much a part of that kind of thinking, which is that you should legislate these kinds of things. We believe that it's in fact at the heart of the system of government that we have for each party, particularly a party in government, to simply have its fiscal agenda up front as part of its responsibility and not to try and go around about it by having legislation in place that says you've got to do it this way or you've got to do it that other way. We would see this kind of recommendation as a direct affront to the basic nature of the parliamentary system of government that we have in place in Ontario and can't support it for those reasons.

Mr Phillips: For us it will depend on the specifics of the legislation. We've not had a philosophical problem with balanced budget legislation, so we don't have a difficulty with this recommendation. We may have difficulty with a specific proposal.

Mr Baird: The word there is "introduce," though, so it's not a —

The Chair: Any further comment? Number 6. Ready for the question? All those in favour? Contrary, if any? Thank you.

Number 7.

Mr Baird: I have one word I will insert and you can see when I do it. "The best social program for those living in poverty is a job. The provincial government should continue to create a climate conducive to solid economic growth and strong private sector job creation."

1430

Mr Phillips: My problem is with the first sentence. I know it may be politically popular to say that. I actually think that while for many people in poverty a job would be very important, it may in fact not be the most important thing forsome. For others it might be. My problem in supporting almost the preamble is that it presupposes that the solution to all those who are in poverty is simply job creation, when in reality for some it's quite different than that. It may be counselling programs. It may be special services for themselves or their children. This is kind of a slogan solution that is too broad for me.

Mr Kwinter: Just to add on to my colleague's comments, what this does is presuppose that everybody who is in poverty is not working. There is a whole class of people known as the working poor. These are people who are working but are being paid minimally and are effectively under the poverty line. I have a problem with that.

Mr Baird: My intent was just as Mr Phillips suggested at the outset, but both Mr Phillips's and Mr Kwinter's comments are fair, and to be accommodating, we could strike the first sentence of recommendation 7, if that would meet with your approval.

The Chair: Then the suggested amendment is to eliminate the first sentence and start number 7 with, "The provincial government should continue to create a climate...."

Mr Silipo: It's those couple of words that have been added in that create the problem for me, and I'm assuming that they haven't been put in by accident. I don't agree that the provincial government has been creating "a climate conducive to solid economic growth and strong private sector job creation," and so to suggest that the

government should continue to do what it has been doing as the way to create jobs is something I couldn't support. I don't presume Mr Baird would be amenable to having the recommendation read as it was printed without the words "continue to" —

Mr Baird: You're right.

Mr Silipo: — so I unfortunately will not be able to support it. But I want to be very clear on the record. I obviously believe that the government needs to create a climate that will be conducive to economic growth. I just don't think the way this government is going about doing it is the right way, and certainly I don't want to in any way concur with a recommendation that suggests it just needs to continue to do what it's been doing in order to do that.

Mr Wettlaufer: We could do it like you did, Tony, and chase businesses south of the border.

Mr Silipo: You and Mr Mulroney both, yes.

The Chair: We have the proposed amendment eliminating the first sentence with the words "continue to create." Ready for the question? All those in favour? Contrary, if any? Thank you.

Number 8, please.

Mr Baird: "The government should continue to work towards uniform, province-wide commercial and industrial education property tax rates."

Mr Silipo: I have a bit of a question actually on this one. I don't mind the wording as much here, the "continue to." I guess I need to be convinced that the government is actually doing this, because I haven't seen it. If the intent here is to support a direction, I wonder whether we should replace the words "continue to" with, "The government should move as quickly as possible towards uniform, province-wide commercial and industrial education property tax rates." That would make it clear that this is the recommendation we're making, and I'd like to move that by way of amendment. If the members of the committee on the government side are saying that they want to see the government move towards that, I support that. That's what we need to be saying.

Mr Baird: Is there an accommodation we could reach? I think this is something we obviously see as very doable over the long term, and the ministry certainly had discussions with the mayor of the largest municipality affected. Could we say, "The government should work towards" and take the "continue to" out if that causes you some concern? I'm trying to find some accommodation.

Mr Silipo: It's better. Sure, Chair, why not?

The Chair: So read it then as it —

Mr Baird: "The government should work towards a uniform, province-wide commercial and industrial education property tax rate," period, without the "s."

The Chair: Do you understand the amendment? Ready for the question? All those in favour? Unanimous.

The next item.

Mr Jim Brown (Scarborough West): I'd like to move number 9: "The government should continue to support policies to assist small and medium-sized enterprises in obtaining necessary capital."

Mr Kwinter: Mr Chairman, I have a problem; it has already been identified and we're going to see it all the way through. There is some question, certainly by people who appeared before our committee, of whether there was enough effort being exerted to obtain necessary capital for small businesses. I have a problem where we keep saying "continue to" do some of the things, because when the people appeared before us they were saying they want something different from what is being done. I would like to see "the government should support policies to assist small and medium-sized enterprises in obtaining necessary capital."

When you keep putting in the word "continue" it implies the status quo and I think there are a few of these things where we want to make some recommendations to change the status quo. That's not in any way detracting from your recommendation, but just not to build into it the acceptance of the status quo, "Continue to do what you're doing because it's great," because the feeling is that it's not great, not doing the job it should be doing.

Mr Jim Brown: I agree. We need more competition and we need more sources of capital. That's right.

Mr Baird: I would be amenable to that change. Just remove the "continue to"?

The Chair: Then number 9 would read, "The government should support policies to assist small and medium-sized enterprises." Agreed? Ready for the question? All in favour? Unanimous.

Number 10, please.

Mr Baird: Number 10: "The government should call on the federal government to immediately eliminate the employment insurance premium for youth and their employers."

The purpose for this is that this is an issue that the minister and a number of my caucus colleagues pushed for very strongly leading up to last month's federal budget. Unfortunately, the federal budget measure said "effective 1999." We think particularly small businesses which are creating many jobs for young people need assistance now, not later. While I recognize that the federal government has taken some action on this, we certainly are keen that they step it up and not ask young people to wait a year for assistance.

The Chair: Any further discussion? Ready for the question. Number 10: All those in favour? Unanimous.

Number 11.

Mr Baird: "The government should work with other levels of government and the private sector, including small business, to encourage youth employment."

The Chair: Any discussion?

Mr Silipo: Chair, we have a motion that deals with this area as well. It probably came up in one other place. Should I move ours by way of amendment, in addition to this? What ours does that this doesn't is suggest the notion of setting targets to deal with unemployment. Would that be an appropriate amendment here or should I just deal with that as a separate piece later on? How do you wish to do that?

The Chair: What number is yours?

Mr Silipo: Number 6, which says "The government should set and meet realistic targets for the unemployment rate, with a separate target and specific programs for youth unemployment," which I would see as a complement to what's suggested in number 11 and obviously something that would give it a bit more teeth than just the broad statement that's here.

Mr Baird: It's a fair point. Perhaps we could consider them separately, though, and have a separate discussion on yours when you present it.

The Chair: Yes, I think one complements the other. We could deal with them in order.

Mr Silipo: However you wish, Chair.

The Chair: I propose, then, to deal with this one and we'll deal with yours when we come to it.

Mr Silipo: Okay.

The Chair: Number 11: Ready for the question? All those in favour? Unanimous.

Number 12.

1440

Mr Baird: "The government should continue to support programs and initiatives that ensure our children grow up in a healthy, safe and nourishing environment."

Mr Kwinter: This is the one that really bothers me, because we heard from people like Dr Steinhauer and others that these programs are not in place. I have no problem with, "The government should support programs and initiatives that ensure children grow up in a healthy, safe and nourishing environment," but I think there were some very serious questions raised by several deputants as to whether the existing programs the government has are effective. I would like to see the removal of the word "continue."

Mr Silipo: A number of initiatives have existed for some time that were started by previous governments, whether ours or the Liberal government or even back to previous Conservative governments, that are worthwhile continuing, but there are also other initiatives that we would question. If the words "continue to" were removed, I think we could all support this recommendation.

Mr Baird: I said "continue to" because I was referring very specifically to the fact that in last year's budget there were a number of initiatives. The Healthy Babies, Healthy Children program was one, and I know my colleague Mr Arnott has worked for increased funding for that program. There have been a number of measures that I think have been welcome.

What we wanted to do was say to the government that those types of initiatives and other initiatives introduced in the past by other governments are ones that bear consideration for support in the upcoming budget. By "continue to" I was referring very specifically to the initiatives contained in last year's budget, the most exciting one being Healthy Babies, Healthy Children, and the breakfast program for children which was introduced previously.

There have been a number of initiatives by this government and, I will certainly concede, by other governments, undoubtedly when Mr Silipo was a minister. I think very strongly that it should include "continue to" because this is not an issue which would be a point of departure for us.

The Chair: Any further discussion? Ready for the question as submitted? All those in favour? Carried unanimously.

Number 13.

Mr Baird: "The government should continue to work towards an integrated approach to post-secondary student assistance with the federal government."

Mr Silipo: I have an amendment that we add to the end of that words to the effect of, "with particular attention being paid to the need to reduce debt load for students," which I think is an important factor.

The Chair: Could you repeat that?

Mr Silipo: "With particular attention to the need to reduce debt load for students." I agree very much with the need to continue to work towards an integrated approach with the federal government, but I continue to believe strongly that the main element of this has to be to figure out a way to reduce the debt load that would otherwise be there through a straight income-contingency system.

Mr Baird: On that one I'm open if there's an accommodation we can find. I think there are two issues. There's government overlap and duplication on one side of the coin, and second, there's student debt. We're all concerned when we see a student come out of school with a $50,000 debt. I'm demonstrably less concerned about $50,000 in student debt if it's the young fellow in my constituency office last week who got a job at Northern Telecom making $63,000 in his first year out of university. A $50,000 debt is not as significant an issue for someone who's going into employment in a high-paying profession. I don't know if there's a way to accommodate that. I'm more concerned about students who are unemployed for a number of years after their graduation with high debt.

Mr Silipo: I was looking for something that was also fairly broad, Chair. That's why I'd just left it with no —

The Chair: I thought you moved a specific amendment.

Mr Silipo: I did, yes, but I'm amenable to the words of that amendment being changed if they would find favour across the way. I wasn't trying to say how it should be done but simply to note that the question of student debt load needs to be addressed as part of this equation.

Mr Baird: How about "with particular attention to the impact of debt on young people"?

Mr Silipo: Sure, that would be fine.

The Chair: So it's proposed that number 13 be amended by adding "with particular attention to the impact of debt on young people." Is that what is agreed? Any further discussion?

Mr Kwinter: I have a little problem. I have no problem with the intent. I have a problem with identifying them as young people. There are people in post-secondary education who are not young. They have the same problem and in many cases the problem is accelerated. I think it should be generic to the point where we're talking about students and not young people.

Mr Baird: Replace "young people" with "students." I think that's a fair point.

The Chair: "Young people" would then change to "students" in the proposed amendment. Are you ready for the question now? All those in favour? Unanimous, as amended.

Mr Baird: Number 14: "The government should continue to ensure that the elementary, secondary and post-secondary education systems equip students with the scientific and communications skills to compete for high-tech jobs and meet future skills shortages identified by industry."

The Chair: Any comment?

Mr Silipo: It's one of those recommendations where you can read it at first blush and say, "What a good idea." On the other hand, you can also read it and ask, "Is this suggesting a focusing in of what elementary, secondary and post-secondary should do in terms of training for specific jobs?" I don't know if that's the intent, but it could be read that way. I'm a little troubled with just the tone of it, although I certainly don't disagree with, as I say, the positive way of looking at this.

Mr Baird: I was particularly impressed with the presentations by ITAC and the Canadian Advanced Technology Association. They spoke, obviously, of the growing skill shortages in the high-tech industry. With this recommendation, I was hoping for the government to encourage initiatives to get more kids, young people, students, returning students, into these areas.

Many of the problems exist in terms of the secondary level, where people aren't encouraged to consider pursuing these types of careers. People are encouraged to drop mathematics or science and aren't in a position where they can apply. There's a whole host of other initiatives, whether they be cooperative education or graduate transition, tax credits. As I said, there's a whole host of measures. If there's anything you've got which would —

Mr Silipo: One suggestion I had was if we removed the last three words, "identified by industry," then it would leave it as more generic.

Mr Baird: Yes. I think we accomplish what we wanted to accomplish.

The Chair: Anything else, Mr Silipo?

Mr Silipo: That's all, thanks.

Mr Wettlaufer: Chair, I'm not so sure that I agree with that. I've had a number of discussions with high-tech industries in my area in the last couple of months, and one of the things coming out loud and clear is that universities and high schools should not be encouraging learning for the sake of learning, that universities — while it is a very noble idea to have the idea of learning for learning's sake and that it be a centre for higher learning, it is no longer just a centre for higher learning. Universities in general should be encouraged to establish a partnership with industry to ensure that students are going into areas of study which will ensure that they will have a reasonable opportunity for a job upon graduation.

1450

Mr Silipo: I don't disagree with what Mr Wettlaufer has said. The only point of potential disagreement is that I don't want to support something that gives the impression that we are suggesting industry should be telling the school system, elementary or secondary or post-secondary, what the parameters of that learning should be. I think there is a value and a merit to learning for the sake of learning, but I also don't think that has to be divorced from learning skills which then can be applied in a variety of jobs, not just in a particular job.

I guess I read, in the way this was, the notion that we were maybe saying industry was going to identify what the skills shortages were and we were going to reroute or fix or change our system of education to cater to that, as opposed to simply taking that into consideration along with everything else we need to do. That's why I thought that if we leave it out, you're still dealing with the need to meet future skill shortages, the need to have skills that will allow young people to compete for high-tech jobs. Those are the kinds of things industry would be looking for, we all would be looking for, but it leaves it broader than just simply saying that it's those things that are identified by industry that should be catered to.

Mr Baird: Is there maybe a middle ground where we could say, "and meet future skill shortages in partnership with industry," "in consultation with industry," "with consideration given to the local labour markets"? I'm fishing here to find something.

Mr Silipo: Again, I don't have any trouble with words that say "in consultation with" or the last phrase, "take into account the needs of the labour markets." That's fine. I think it's already in there, but if you want to say it in that way, then that's fine.

Mr Baird: "In consultation with industry"?

Mr Silipo: Sure.

The Chair: Any further discussion?

Mr Phillips: Just to record my disagreement with what Mr Wettlaufer said and to hope that while I think our education system clearly has to prepare young people for the workplace and all those things, that's not the only purpose of our post-secondary education system. If it's merely a job preparation environment, I don't think it meets the needs of a well-rounded society. It's probably not for a budget debate around a pre-budget consultation, but I didn't want silence to go recorded as agreement. That's not meant to say we don't have to put a lot of weight into job skills and all those sorts of things, but I dare say that if our education system had had that as its only criterion over the last few centuries, we'd be a much less caring, compassionate, well-rounded society. I'm not sure there's anything in what we're doing here anyway that precludes my point of view in any event, but as I say, I wouldn't want it to go unrecorded.

The Chair: Any further discussion? Ready for the question? All those in favour? Unanimous. So much for free choice.

Number 15.

Mr Baird: "The government should continue to search for ways to ensure more of the education budget is channelled to the classroom."

Mr Silipo: Again there is a basic problem here, which is that this sounds nice, it sounds okay, but you've also got to look at it within the context of what's happening to the overall education budget. I think that while channelling more funds to the classroom is a laudable goal, it becomes impossible to do that if what you're doing is continuing to cut dramatically the amount of money that's spent or that's made available to school boards to spend.

I think if we had words in this recommendation that said "while maintaining education budgets at least at their current levels," then the recommendation would make sense. So I would move that as an amendment, to add to the recommendation the words "while maintaining the overall education budget at least at the current levels."

The Chair: This is a formal amendment by Mr Silipo to add to the end of number 15 "while maintaining the overall education budget at least at the current levels."

Mr Baird: Could we have a separate vote on the two?

The Chair: We'll vote on the amendment first.

Mr Baird: Yes, that's right, a vote on the amendment.

Interjection: A recorded vote on the amendment, please.

Ayes

Kwinter, Phillips, Silipo.

Nays

Arnott, Baird, Jim Brown, Rollins, Wettlaufer.

The Chair: That's 3 to 5. The amendment is defeated.

Are you ready for number 15, the main one? All those in favour? Contrary, if any? That's 5 to 3. Carried.

Number 16.

Mr Rollins: "In order to give more employment opportunities to young people, the government should continue to support cooperative education."

The Chair: Any discussion? Ready for the question? All those in favour? Contrary, if any? Unanimous.

Number 17.

Mr Wettlaufer: I move the following recommendation: "The government should maintain its commitment to health care funding and continue to move towards a restructured, integrated health care system reinvesting administrative savings in priority services."

Mr Phillips: I think for many of us there's a growing major concern about the health of our health care system. Frankly, I'm not sure whether maintaining the health care funding is the right solution or not. What I do know is that health spending in 1992 was about $17.5 billion; when I say health spending, the amount of money that the taxpayers funded for health spending. Health spending probably is $28 billion in Ontario I would suspect right now, or $29 billion. The major funder is the big insurance company called the Ontario taxpayer. I gather the government said, "We're going to spend roughly $18.2 billion and then $18.3 billion."

I really think we do ourselves an injustice, a disservice by just saying, "That's the solution, to maintain it." I have a feeling that the thing is starting to fall apart on us and I'm not sure that $18.2 billion is the right number. It seems to me we should be talking about the quality of care rather than the funding and trying to determine what is the appropriate level of funding by, as I keep saying, the big insurance company called the Ontario taxpayer. Have we got an adequate level of funding in total in health care and by the Ontario taxpayer? I'm not sure that the committee knows enough to say that maintaining our commitment to funding is the right solution to our health system.

I repeat myself: Wherever I now go, I'm finding the system is starting to unravel slightly. That's not a partisan comment; it's just reality. I have difficulty with 17, because it's more about funding than it is about maintenance of a quality health care system.

1500

Mr Wettlaufer: It's interesting that we hear these comments from Mr Phillips. He talks about quality. Even David MacKinnon of the Ontario Hospital Association acknowledged that for 15 years we had improper planning. Quality we believe does take into account restructured, integrated health care for all age groups, for all people, whether they have mental disabilities or not.

You talk about commitment to health care funding. It was the Liberals' own red book which indicated that they would spend $17 billion a year on health care. This year we will spend $17.8 on operations spending alone, program spending. In total, it will be in the area of $18.5 billion, including capital and restructuring. I do believe we are taking the right steps. We're not going to turn it around in the snap of a thumb and finger when we've had improper planning for 15 years, but we do believe we're going to maintain our commitment.

Mr Silipo: I actually support the recommendation as it's written; I just wish the government was actually doing what this recommendation says. We can sort out the games that have been played with funding, but anything that calls on the government to maintain its commitment to health care funding I think we should support, and continue to move towards a restructured — it isn't doing it in that way. As I'm reading it, it's the "continue to" that's creating a problem here. But this is what the government needs to do; it needs "to move towards a restructured, integrated health care system reinvesting administrative savings in priority services," yes, continue to provide that.

My problem, quite frankly, comes down to the problem we identified in a couple of other places before, which is the "continue to," because I don't think the government has been doing that; I think the government has been cutting in some areas without doing the integration of services appropriately, and that's what is causing the problems out there. Again, I would ask Mr Baird whether taking out the words "continue to" is in the cards on this one, because if those words were out I could support this recommendation, otherwise I can't.

The Chair: Just to be correct, in 17 the word used is "maintain."

Mr Silipo: Right, but then the words "continue to" are later on. Yes, "maintain" is okay.

Mr Wettlaufer: Chair, we're not taking the words out.

Mr Phillips: I appreciate the tone.

Mr Baird: Good cop, bad cop.

Mr Phillips: Just so I'm clear, what is the cause of the stress and the strain on the system right now? I suspect all of us have some real horror stories, if you will. I don't think the public really want us to say: "It was your fault," "It was Bill Davis's fault," "It was blah, blah, blah's fault." What is the solution here?

I just look at what has happened since 1992. I'm repeating myself: $17.5 billion. I think the population is up a million people since then, the number of people over 65 has increased dramatically and the cost of living has gone up. If the government is saying there's quite enough money in the system and it's just that it's being badly handled, badly managed, then that's what I think number 17 says. It isn't a question of more funding by the provincial government; it's that the system is badly managed.

I frankly don't know whether that's the case or not. I know the system can be improved, but I'm not sure there are sufficient funds in the system right now. I honestly don't know that. I have a suspicion that the government itself is going to come to the conclusion that there isn't enough money in the system. I think that will be an inevitable conclusion.

I'm having difficulty supporting 17, because essentially I read that as: "We've committed enough money. It's now just managing it properly." I don't have enough evidence to suggest that is correct.

The Chair: You're breaking with your federal leader, but that's okay.

Mr Phillips: I decided to run provincially so that's where I put my focus. Instead of going to Ottawa, I went to Toronto. Instead of going to Ottawa, you came to Toronto.

The Chair: Any further comments?

Mr Baird: I would concur with some of what you've said. We made a commitment that we would not let health care spending fall below $17.4 billion. In fact, we've come to the conclusion in recent years that we've got to spend more money. Not only do we have to spend the money we are spending now better and more wisely, but we've had to spend more money. One of our biggest challenges we face as a province — not our particular government but as a province — over the next five, 10 and 25 years is containing the growth in health care spending.

Mr Wettlaufer: I sure am glad to hear Mr Phillips say what he said. I thought he was pretty hard-nosed, but I realize now that he had no input in the design of the red book in its limit of $17 billion on health care.

Interjection.

Mr Baird: I think that had a lot to do with the red book. I'll remind you of that in the House when I have the chance.

Mr Wettlaufer: I would like to re-emphasize that for 15 years, even though there was some research being done by the bureaucrats, it wasn't being accepted by their leaders, the ministers of health. I believe we are continuing in the move to restructuring. I think that's progressive and is what the previous governments should have done.

The Chair: Any further discussion? Ready for the question on 17 as presented? All those in favour?

Ayes

Arnott, Baird, Jim Brown, Rollins, Wettlaufer.

Nays

Kwinter, Phillips, Silipo.

The Chair: Carried.

Mr Wettlaufer: I move number 18: "The government should continue to encourage the federal government to restore the $2.1 billion it cut from health care and post-secondary transfers to Ontario since 1994."

In the past 20 years, successive federal governments have reduced the amounts they have been paying towards health care and post-secondary transfers from 50% to 15%. Contrary to what the federal finance minister said two weeks ago, that they were increasing funding to Ontario by $1.5 billion, there has actually been no increase of $1.5 billion. All they have done is eliminate the proposed further cut of $1.5 billion.

Mr Phillips: The only problem I have with this is that I remember Mike Harris in the Common Sense Revolution, when the federal budget was announced, saying, "Common sense tells us the Martin budget will have significant impact on Ontario's economic outlook. The Dominion Bond Rating Service has estimated the cost reduction in federal transfers to Ontario at $2.3 billion. In the wake of that budget, the spending cut component of which we publicly endorsed, it obviously became necessary to revise our CSR projections." I know what Mike Harris wanted, and that was the cuts; in fact, he said he publicly endorsed them. That's one of the challenges the report presents now, that Mike has been on record as saying he likes the cuts and publicly endorsed them, so it makes our job a little more difficult when he has been as public on supporting the cuts.

1510

Second, I'm not sure, is the government saying that if it is restored they will increase spending on health care? This gets back to the point I was trying to make on 17. Is the issue that if we could only get more money from the federal government, we would spend more money on health care? Is that the issue? Or is it that if we can get the money, we will implement the tax cut? It would be helpful for me to know what the government's position is on 18. Is it, "We would like to spend more money on health care, and in spite of the fact that we publicly supported the cuts, if the cuts weren't there, we would increase our spending on health care"? Is that what the government is saying?

Mr Baird: I guess the issue is that every time the federal government cuts health care transfers — and for that

matter post-secondary education transfers as well, but in particular for health care, though, in this case — when they cut $2.1 billion in health care, we've got to find that $2.1 billion elsewhere to maintain our commitment for health care, which puts a tremendous strain on the budget. I think the taxation matters are separate. I can tell you one thing: If we had $2.1 billion more money, we would be in a position to have such an argument and such a discussion. That would be an enviable position to have. The position of the government has been that the folks who have paid the toughest price in achieving the federal balanced budget were not internal government administration, they were health care, and they should be the first in line for that dividend, instead of a whole host of other new spending initiatives. They clearly did not see that as a priority and that's something which caused us concern.

Mr Phillips: I still didn't actually get an answer. It would be helpful for me if the government were to say: "Listen, if we could get more money, we'd spend more money on health care. That's the problem." If that were clear, then it makes it easier.

Mr Baird: If the federal government were to go back retroactive to 1994 and give us the $2.1 billion they've taken every year, I can assure you we would increase health care spending.

Mr Phillips: Well, there we got it. That's all I need to know.

The Chair: Take that to the bank. Mr Silipo.

Mr Silipo: I'm going to support this recommendation. I remember the days not too long ago when Mike Harris would say — we would say this. You know, I would say this, members of the NDP government would say this, and Mike Harris would stand up and say, "Stop whining." I'm glad they have finally come around to realizing that we weren't whining, that what we were doing was in fact calling upon the federal government to do its job properly, not to deal with its problems by simply transferring them over to Ontario through the cuts of this $2.1 billion. I can only support the commonsense approach that government members are taking on this in finally realizing that there is a problem out there and that it has been caused in part by the federal Liberal government.

Mr Baird: You're the best, Tony.

The Chair: Ready for the question? Number 18, as presented, all in favour? Unanimous.

Number 19.

Mr Phillips: Mike had gone on record here as supporting all these cuts.

Mr Wettlaufer: He only had 20 members then.

The Chair: A lot of people have gone down on record. Number 19.

Mr Wettlaufer: I move, "The government should call on the federal government to provide a more equitable funding formula for health care and post-secondary education transfers." My comments are the same on this as they were on the last one.

The Chair: Further discussion? Ready for the question? All those in favour? Contrary, if any? Unanimous. Carried.

Number 20.

Mr Arnott: "The government should continue to urge the federal government to follow the recommendations of the provincial finance ministers and reduce EI premiums to $2.20 per $100 earned."

Mr Silipo: One of the concerns I have with this is, what does this mean to the other side of the equation, which is the benefits paid to workers who are unemployed? I would move the following words be added to this, "and to restore the cuts to employment insurance benefits," so as to be clear that what we're talking about is a combination of reduction in premiums with restoration of the level of benefits that was there before, and given that in fact there is a big surplus in the EI system, it's not something that couldn't be done if the political will was there to do it, so I would move that by way of amendment.

The Chair: An amendment by Mr Silipo to add "and to restore the cuts to the EI benefits."

Mr Arnott: I want to add a couple of comments to my recommendation that this be adopted. It's my understanding that at present levels, we now are charged $2.70 per $100 of payroll to go into the employment insurance fund, that as of the end of December 1997 there was a surplus in the EI fund that Mr Silipo alluded to of approximately $12.7 billion, and it's projected that by the end of 1998 it will go up to $19 billion, so clearly there is room for a reduction in employment insurance premiums, and our party believes very strongly — and I think it's something that has been unanimously put forward by the provincial ministers of finance — that a reduction in EI premiums would be a direct and immediate incentive for employers to create the new jobs we need.

Mr Silipo has raised another issue that he might want to raise in the context of his party's recommendations, but I think that recommendation 20 as has been proposed by our side should stand alone.

Mr Phillips: My problem here is that frankly this is not an area our committee spent a lot of time studying. I don't know enough about whether $2.20 is sufficient to properly fund the system or not. I do know that one of the problems in the past was they got into an economic downturn and the federal government ended up taking the premiums up, so it was counterproductive. The tougher the times, the more the rates went up. What I gather they are attempting to do here is to salt the money away in good times so that in bad times they don't have to take the rates up.

I honestly have not looked at the numbers to know whether $2.20 per $100 is reasonable or not. I would maybe ask the mover, what sort of demands would you see being met at $2.20 and can you table a report that says $2.20 is sufficient? I simply don't know.

Mr Baird: I just want to make a comment with respect to Mr Silipo's amendment. I don't take issue with his sincerity and his concern with the changes brought about in the new EI, which was the UI system. I don't recall hearing during the hearings process anything about the changes brought about to employment insurance to put that as part of our recommendations.

I was very impressed with the importance to small business. There was a chart that provincial policy director Judith Andrew gave us, and the concern small business expressed, that one of the highest concerns they had was payroll taxes, this being the obvious candidate, beyond the employer health tax, for such a significant reduction, to help job creation; that was the motivation to put it. Given there's such a surplus and given that provincial finance ministers representing New Democratic governments, Liberal governments and Conservative governments have called on that, that was the motive, so there is nothing sinister. I don't know enough about the reductions to employment insurance to be able to make any statement.

1520

Mr Arnott: I appreciate the comments by my colleague Mr Phillips and would certainly take note of them. I don't have any studies to table, unfortunately, but I still believe that looking at the tremendous growth that is anticipated in the EI account, a $12.7-billion surplus at the end of December of this year and an anticipated surplus of $19 billion by next year, certainly there is tremendous growth there that we can look at.

I guess the question is, how much do you believe that a reduction in payroll taxes would create jobs immediately? I believe that in fact the reduction in payroll taxes would create jobs immediately. It is my understanding that Liberal governments in New Brunswick and Nova Scotia also support this reduction and would probably concur with the recommendation.

The Chair: Further discussion? Ready for the question?

On the amendment as proposed by Mr Silipo: All those in favour of number 20, as amended?

Mr Baird: Do the amendment first.

The Chair: Right. On the amendment: All those in favour? Contrary? Defeated.

On number 20, as presented, ready for the question? All in favour? Contrary? Carried.

That completes the government recommendations. I think we had agreed before we broke this morning that we would move to the NDP recommendations next. Is that correct?

Mr Silipo: I'm easy. If you want to move to the Liberals, that's fine.

The Chair: What is your wish?

Mr Phillips: It doesn't matter to me.

Mr Baird: Given that Mr Silipo's was the next party to submit theirs, we could go to them, if there's no objection.

Mr Silipo: I'll move them as they are here.

Number 1: "Instead of continuing with implementation of the income tax cut, the government should immediately redirect this money to urgent needs, especially in health care and education."

The Chair: Any discussion? Ready for the question?

Recommendation number 1 of the NDP caucus: All those in favour? Contrary? Defeated.

Mr Silipo: Number 2: "The government should use funding made available from cancellation of the tax cut to ensure full access for Ontarians to universal health care as enshrined in the Canada Health Act."

Mr Baird: Just a comment in terms of this recommendation. Obviously it's couched with the terms of the tax cut, which by virtue of a previous recommendation, you will appreciate, is a concern on this one.

Certainly the government will continue to follow the Canada Health Act and the provisions enshrined therein in terms of the universality provisions. There has never been a discussion otherwise. I just wanted to put that on the record.

Mr Silipo: I'll just say briefly, because we have had some discussion on these issues already when we dealt with the government recommendations, obviously there is a very clear difference of opinion between those of us in the NDP and the government side on the question of the tax cut. But certainly one of the implications and one of the impacts that we are seeing is that in education and in health care, as this particular recommendation deals with specifically, we are seeing, we believe, a threat to full access for Ontarians to universal health care.

While we may still be at the point where legally the government of Ontario is saying they can abide by and are still abiding by the provisions of the Canada Health Act, we believe that we are getting very close and that if the direction continues, we will cross over that line, to the point where full access will no longer be something that we will all enjoy. That's a fundamental right that, as Ontarians and Canadians, we've enjoyed for some time and we want to make sure that the government corrects its course. Hence we've brought forward this recommendation and the previous one, dealing with the importance of health care and education, as two areas that require primary attention for ongoing funding and support by the government as opposed to the tax cut.

The Chair: Are we ready for the question on number 2? All those in favour? Contrary? Lost.

Mr Silipo: Number 3: "The government should halt the trend towards privatized, two-tier medicine, especially as seen in the destructive competitive model that has been introduced in home care."

I think the recommendation speaks for itself, but essentially one of the pieces we have seen the government begin to implement as they are moving towards a new model of health care, particularly in home care, is this kind of simply moving it to the lowest bidder. That means that we won't have necessarily the best care available to people out there in the communities. It's something we think needs to be corrected because the end result of that system, if the government continues along this line, will be to see a two-tier health care system, one for those who can afford to pay a higher premium and a higher amount and one for the rest of us. That's exactly the kind of situation that the universal health care system in this country and in this province was set up to move us away from. We are seeing the first steps taken by the Harris government to get us back to the way it was, and the way it was in the area of health care is not where we should be going.

The Chair: Ready for the question on number 3? All those in favour? Contrary, if any? Defeated.

Number 4.

Mr Silipo: "The government should use funding made available from cancellation of the tax cut to ensure province-wide access to junior kindergarten and adequate stable funding for the entire public education system."

The motion, I hope, is clear enough. It speaks for itself. I noted with some interest during the presentations the concern that was expressed around junior kindergarten, in particular from a variety of groups that we would have expected to hear from, a number of the teacher and child care communities, but also from groups that we might not have expected to hear that from, such as the Ontario Chamber of Commerce. There is clearly an understanding out there that what the government has done, particularly in this area of policy as it relates to young children, is wrong and needs to be fixed.

We obviously tie that very much to the government's steps with respect to the tax cut and point out, as we do in the recommendation, that cancellation of the next stage of the tax cut would more than provide adequate funding and adequate money for this initiative, among others, to be able to be properly funded.

The Chair: Number 4. All those in favour? Contrary? Defeated.

Number 5.

Mr Silipo: "The government should immediately freeze post-secondary tuition and take action needed to reduce crushing student debts."

I offer this as a complementary recommendation to one dealt with earlier dealing with post-secondary. We think the kind of shift that's been taking place towards asking students to pay more and more and more and then allowing universities and colleges to set even further increases beyond those established by the government — those directions, we believe, are wrong because they will simply add to the debt that the government has put on to the backs of students, and that's something that shouldn't happen.

I'm quite aware that our own record when we were in government unfortunately also included increases in post-secondary tuition. I don't think it was anywhere near the kind of range that we're seeing now, but be that as it may, we believe the time has come to say that students can't be asked to bear more and more of the cost, that there's got to be a limit, that the limit certainly has been reached and that the government should therefore freeze post-secondary tuition at the same time.

1530

Mr Baird: I have a tremendous regard for the member for Dovercourt. I think he's, generally speaking, a very principled fellow, but on this issue — I mean, you were the Minister of Education. I was a student when you were minister and I recall very vividly during the election campaign that you weren't going to freeze tuition, you were going to get rid of tuition.

Mr Silipo: It wasn't my recommendation.

Mr Baird: It was going to be gone. That was the party policy: It was going to be gone, zero tuition. I was so excited, because I was going into third and fourth year, and I had already had huge tuition increases under our friends the Liberals. Two of the ministers still sit in the House today. I was looking forward to it because it was going to be free and I was going to have all this extra money because I wouldn't have to pay tuition any more.

Mr Silipo: Just for the record, the only minister who was there at the time isn't in the House any more, who was responsible for this bill.

Mr Baird: I did check. You were minister from October 15, 1991, to February 3, 1993.

Mr Silipo: Unfortunately, I didn't have responsibility for post-secondary.

Mr Baird: But it did fall under your ministry none the less. This is the type of thing that in opposition is a very easy thing to say: "We'll freeze tuition; we'll get rid of tuition." But the reality is that there is a system to fund, where we want students and young people and people going back to school to get a good-quality education, and the fact of life is that you have to pay for it. I think we'd all like zero tuition. In a perfect world, that would be an admirable characteristic. I think it is somewhat unrealistic. Even under the previous government, of which my colleague was a member, I know Dave Cooke sponsored a number of seminars and symposiums on an income-contingent loan repayment plan, which goes substantially against the spirit of this motion. While I appreciate the spirit in which he presents it, it's an easy resolution for an opposition member to make and perhaps not realistic in terms of the disciplines of having to deal with the reality of a very, very large deficit. For that reason, those are the concerns I would express.

Mr Arnott: I hope it's not the NDP's position any more that they're going to get rid of tuition entirely for university students, because I think, as my colleague has pointed out, it's a fairly impractical thing and it isn't going to happen in the short term by any means.

I would like to add, and I think it's important to point out, that in the Treasurer's financial statement in December of last year when he indicated the government was going to allow additional increases in tuition, the allowance was made with the provision that a certain percentage of the increase in tuition rates, an additional portion, had to be set aside for student assistance. That's worthy of note in the context of this discussion.

As my colleague Mr Baird has pointed out, clearly the students who go to university realize tangible benefits to them as individuals. Also, we can't overlook the fact that the state still massively subsidizes tuition in Ontario today. Most students are not yet paying half of the total cost of their education through their tuition, so there's still a massive state subsidy for assistance for students in university.

Mr Silipo: To be fair, I think some of the criticism lodged at me and at my party from across the way is fair, and I take that. In this recommendation I'm not saying that at this point in time we should be undoing the various increases; we are saying that there should be a freeze on further increases. That's what the recommendation pro-

poses, based on the argument that there have been substantive increases over the years by, unfortunately, all governments, all three parties being in government; and that we should not resolve the funding problems in post-secondary education by further tuition fee increases. That's the import behind this recommendation in saying, "Freeze the tuition fees, given what has happened, don't increase them further and then begin to take steps that we need to reduce the kind of incredible debts that we are beginning to saddle upon the students."

The Chair: Are we ready for the question on recommendation 5? All those in favour? Contrary? Lost.

Number 6.

Mr Phillips: There's a pattern emerging here.

Mr Silipo: Yes, there's a slight pattern emerging, as my colleague Mr Phillips says. But actually with this next one maybe we will see.

Mr Baird: The cancellation of the tax cut —

Mr Silipo: This next one isn't tied to any cancellation of anything. This actually is quite complementary to a recommendation we passed earlier.

Number 6: "The government should set and meet realistic targets for the unemployment rate, with a separate target and specific programs for youth unemployment."

If I could speak to it briefly, I'm trying to look at which recommendation it was that we dealt with earlier: number 11, I believe, where we said, "The government should work with other levels of government and the private sector, including small business, to encourage youth employment."

It was suggested at the time that this would be a very good complementary motion to that, because it suggests that the government should set targets for the reduction of unemployment, that it's not enough to say, as I think we all would want to say, "Yes, we should reduce the unemployment rate overall and particularly for young people," but that the only way to do that is for the government to actually set some targets and work towards those targets in the same way that government has chosen, this government and other governments, including ours in the past, to set targets for the reduction of the deficit.

Certainly the human deficit is the most important of all, and we think it's time that governments at all levels, and certainly this one, should be prepared to say, "Let's set realistic targets to drop the unemployment rate overall, and particularly the overarching rate for youth unemployment." There is no way in which we should be accepting the kind of situation that exists now. We can argue about the causes and the best way to deal with it, but what this recommendation says in a very broad way is, let's have government take on the understanding and the responsibility, that unless you begin to set real targets, this is a problem that we'll all just continue to talk about and not see much improvement on in the years to come.

Mr Baird: Just two brief comments. Obviously, from my comments earlier, job creation is more important than deficit reduction. I certainly have always believed and do now believe that. Indeed, there is an important target with respect to job creation.

I would express one concern about one word in the second line: "programs" for youth unemployment.

There's been a good series in the Toronto Star over the last three or four months on youth unemployment. On the first day of that series in the Saturday Star, there was a front-page analysis story, an introduction to the series, by John Honderich, the publisher of the Star. He said that what young people do not want is more platitudes from politicians or simply yet another government program.

I share that, and I think some of the answers to youth unemployment rest with creating the climate for job creation and then policies and initiatives rather than simply a make-work program which, while noble, is a short-term fix to an otherwise significant problem. That's why the recommendations already adopted that have I believe the support of all three parties are with respect to issues like cooperative education, which isn't a program — more a policy or an initiative — with respect to the tax system, with respect to high-tech skills and equipping our young people with the skills they need. So those are two concerns that I'd suggest.

Mr Arnott: I want to compliment Mr Silipo for bringing this forward. I think it's an idea that has some merit, actually, and would indicate support for the principle that he's trying to raise here. Certainly the government, with its stated commitment to create 725,000 jobs over a five-year period, recognizes that job creation should be given a great deal of priority consideration in terms of government policy.

I would ask the member what target rate he thinks it should be, what the rate of unemployment should be in Ontario. I think certainly we want to encourage a policy of full employment, but economists sometimes differ over what that means. There are always a certain number of people who are voluntarily unemployed, who have quit their job hoping to look for another one or are out of the workforce for some personal reason. They've made that decision themselves. So there's always a built-in percentage in the unemployment rate generally that are voluntarily unemployed — a small percentage, I would think, probably less than 5%. But if he could provide additional clarification, it would be more helpful for me in terms of wanting to support it.

The Chair: I think Mr Phillips was next.

Mr Phillips: I come from a business background, and we sort of like to set targets in the real world. As someone once said, if you don't set yourself some goals, you'll never know when you've scored.

To me, this is a bit of a no-brainer. It's going to be quite unusual to explain why the government wouldn't want to do this. You'll see in our recommendations that we recommend that the government establish a series of goals. I might add, by the way, the Alberta government does a very good job at it. That was something we took out of one of the presentations here. So to me it's a bit of a no-brainer.

1540

I would repeat: On youth unemployment, the government's own statistics show that the unemployment rate

among young people — this is the 15 to 24 age group — in 1995 was 15.4%; in 1996, 15.6%; and in 1997, 16.7%. The employment went from 781,000 to 778,000 to 772,000. It's acknowledged by all of us there's a problem. I thought Mr Silipo was probably good in saying "realistic" targets. It's a bit of a no-brainer. I'm not sure why we're even debating this.

Mr Silipo: The reason the wording is set out as it is is because I don't purport to have the answers as to what a realistic target should be. What we're trying to push through this recommendation is the fact that as parliamentarians, and certainly the government has a primary responsibility, all of us have a responsibility to begin to pay some direct, concise attention to this.

For example, I think it would be to everyone's advantage if we as a committee were to spend some time just focusing on this: in the same way that we've done the pre-budget process of hearing from people about the whole fiscal situation, to actually invite even some of those same people to come back and talk to us specifically about this and what we should be doing.

There's lots of evidence outside of our own borders around what initiatives governments have taken. Look at the situation in France: a lower percentage of youth unemployment there, and the government has taken the action to create, not on its own but working with the broader public sector as well as the private sector — they've got a target of 700,000 jobs aimed particularly at young people. I don't think they presume that's going to resolve the problem, but it's going to make a major dent in the problem.

I think we'd have to look at the situation in terms of: What is the situation here in Ontario? What could we establish? What kinds of steps could we take? Yes, that would involve, Mr Baird, looking at some programs, not in terms of simply pretending that the government could create those jobs or that the government should create those jobs, but that there are opportunities, there are bridging mechanisms that the government could do, that government-funded programs would in fact provide an avenue for that to happen, but understanding that the real objective is to help create jobs in the private sector.

What we are saying here is, let's make it a priority. Let's make it an area in which we focus some attention not just in terms of the overall fiscal situation of the province, which we might agree or disagree is conducive — obviously the better the economy functions, the more conducive it is overall to jobs being created. But what we're saying is that in addition to that, there are some things that government should be doing. In the same way that we preoccupy ourselves, and obviously this government perhaps more than others, with reducing the deficit, we ought to preoccupy ourselves in a very focused way with the issue of unemployment, particularly as it pertains to young people, and we ought to sit down in an ongoing way and talk about what remedies are there beyond what already is happening. That's what the intent behind this is.

As Mr Phillips says, in a way it is a bit of a no-brainer, it is a bit of motherhood, but it is also saying, "Let's take this on as a bit of a task in a different way than we've done so far." It's offering this as a way to go.

Mr Arnott: I shouldn't really speak to this again because I've already talked about it, but I want to pick up on what's been said here. I think we all support the principle behind what you're suggesting, Mr Silipo. There must be some reason why your government didn't set these targets and try to meet them. There must be some reason why the provincial government under the Liberal Party, to the best of my recollection, didn't do it.

I can think of one practical problem. This recommendation almost presupposes that the provincial government has control of all the levers that impact on economic growth or on economic downturns. Certainly if the provincial government in Ontario were doing everything it possibly could to encourage a low, steadily declining unemployment rate, and if there were a federal government in Ottawa that was raising taxes all the time and raising spending all the time and having huge deficits, that kind of thing, it would impact on the provincial government's ability to deliver on these targets. So that's a proviso that I would add in terms of my previous comments.

But again, I think your idea has some considerable merit and I would support it in principle.

Mr Baird: I'm not unsympathetic to the issue. I accept everything Mr Arnott said and agree with it wholeheartedly. The provincial government just doesn't have the levers to say, "Listen, we're going to create X number of jobs this year." I think it can create a climate and it can set goals and objectives that it's striving for and that it seeks to undertake, so I'm not unsympathetic to the spirit behind part of your recommendation.

If you're willing, I would have a significant change that does address the issue and bring the issue forward. I acknowledge that it's significant, but you may want to reflect on it, something of the nature of, "The government should honour its commitment to create 725,000 new jobs over five years, with special consideration to the challenge of youth unemployment."

Mr Silipo: I don't have any problem with that, but I don't know that it takes away from this or is a replacement for this. If Mr Baird wants to move that, I will actually support it, because I agree with everything he has said in that, but I don't see that it obliterates the need for this kind of motion, which goes beyond the targets that the government has already set.

The Chair: Are we ready for the question? Number 6, as moved: All those in favour? Contrary? Mr Brown, I haven't seen a vote. Are you voting negative? Defeated.

Recommendation 7.

Mr Silipo: "The government should halt its destruction of quality public sector jobs and direct savings from the cancellation of the tax cut into a practical commitment to job creation."

I'll leave it at that.

The Chair: Any discussion? Are we ready for the question? Number 7: All in favour? Contrary? Defeated.

Number 8.

Mr Silipo: "The government should declare a one-year moratorium in its overhaul of property tax assessments to

allow enough time to sort out the chaos caused by the new system."

Again, this is obviously aimed at a big piece of the puzzle that we are seeing unfold now as the government begins to try to put in place the new tax assessment system, and we are seeing particularly on the business side the kind of chaos that's caused by the new system. Albeit there will be room for the municipalities to make some changes and to ameliorate the impact, the reality is that I don't believe municipalities have the kind of room they will require —

Failure of sound system.

Mr Silipo: — particularly here in Toronto, but I know to a lesser extent perhaps in other parts of the province, that the new system is just causing a level of havoc that I don't think any one of us wants to see, whether or not we agree with the new tax assessment system.

1550

What this recommendation suggests is a one-year moratorium so that in that time the problems can be fixed. One of the things that I hope will get fixed in that is the recommendation we adopted earlier, unanimously, I believe, as a committee, which is that the government would work towards a uniform province-wide commercial and industrial education property tax rate. Given that the government has decided to move in this direction, it should now recognize that it can't be done in the kind of time frame it has chosen. Good government and good process would say, "You can still move in the direction you want to, but not in the kind of haste you are doing and not with the kind of process where you are setting up one sector of the business community against another," particularly laying small business out there in the way they have been, with the real threat of many of them going under as a result of the new system.

Mr Baird: Just a few comments. Obviously, some of the changes to our property tax system are not insignificant. Whenever you're doing reassessments, it's never going to be 100% perfect, and change is never easy. I think it would be demonstrably worse, though, if there were to be a U-turn in the middle of this process. Some of these changes have been contemplated for many, many years and for a whole host of reasons have been put off by successive Conservative, Liberal and NDP governments. I think changing gears now would only make matters worse.

To be fair, you did mention two points, particularly the issue with respect to small business. The minister last week was very clear that there was no way he was going to allow the type of huge tax increases some have suggested, particularly for small business. I think he has a real knowledge of the importance that small business plays in the economy. In addition, there are a good number of tools the provincial government has given the municipalities to make sure that assessment-related tax changes on small business are both fair and manageable. We can't lose sight of those points among the larger issue.

Mr Phillips: This property tax thing is a mess and it doesn't come as any surprise. Do you remember that the clerks and treasurers were in to see us? This committee has dealt with three bills on this, Bill 106, Bill 149 and Bill 164, and each time the clerks and treasurers, who are the senior municipal bureaucrats, said we're just asking for trouble with the way this thing is being done.

I wrote down some comments they made, that this new system is immensely complicated, with 84 classes and subclasses, 156 tax rates. They said: "Implementation on January 1, 1998, is a high-risk strategy for the financial health of the municipal sector." They said it's going to create serious problems. "This is a recipe for administrative chaos," and "This is downloading the government's confusion and indecision to the municipalities." It isn't as if the government wasn't warned or we weren't warned, because they sat right there — I don't know whether it was in this room, but a room like this — and warned us of all this chaos.

The suggestion of a one-year delay is intriguing, but the thing is in such chaos now, I don't know whether a one-year delay adds to the chaos or helps. I feel a little bit like a spectator watching something going very wrong and not knowing how we can help. I'm a bit perplexed about whether a one-year delay would help to sort it out or whether this thing — as I said to someone, this train left the station when it never should have. It was never ready to run, and it's running now. It's got no brakes on it, and I'm not sure whether pulling a switch right now is going to stop the crash.

I really am perplexed. You can see in our recommendations we also point out the problems with it. I don't know what other members are getting. Mr Wettlaufer said he's not getting any problems. My office is deluged by small business. I gather there's no problem in Kitchener, but —

Mr Rollins: What's their address, though?

Mr Phillips: Well, I'm getting businesses that say, "Tell me again why my business is in Brockville and I've got to pay $15,000 in taxes and my pals over in Parry Sound are paying $5,000 in taxes" for identical businesses.

Mr Rollins: Location, Gerry, location.

Mr Phillips: Yes, location: If you're in Brockville you pay $15,000. But that's the rate set by the province; that's the provincial property tax rate. Mike Harris has said, "If you happen to be in Brockville you're going to pay $15,000; if you're in Parry Sound you'll pay $5,000" — identical businesses valued at $500,000, nothing different other than, as you say, location.

I'm not being overly helpful. I'm just perplexed about whether a one-year delay would be helpful in this thing or whether we're simply going to have to try and demand that the government put the necessary resources into trying to muddle through this thing in 1998.

The Chair: Any further discussion? Not having heard an amendment for a 10-year delay, we'll deal with the item. It's recommendation 8. All in favour? Contrary? Defeated.

Mr Silipo: The day will come when you'll think the section is a good idea.

The Chair: We'll move now to the Liberal recommendations.

Mr Phillips: I'll begin. The first recommendation is, "The government should halt the further implementation of the planned income tax cut and redirect spending to other priority areas such as children at risk, reinstating junior kindergarten and health." It's not unlike one of the NDP recommendations.

The Chair: Any discussion? Ready for the question? Liberal recommendation 1: All those in favour? Contrary? Lost.

Number 2.

Mr Phillips: "The government should abandon its plans for further cuts to hospital and other key health services, and instead address the growing problems in timely access to emergency and core hospital services, and protect and enhance other health services to meet the province's growing needs."

It gets back to discussion we've had earlier. I'm growingly concerned about whether we have enough resources. The government, I know, has said it's not going to proceed with its last cut on hospitals "at this time," I think is the language they used. By the way, the Ontario Hospital Association in previous presentations had been relatively supportive of government direction, and this year they sounded an alarm for us, saying, "Listen, it has now gone too far."

Mr Wettlaufer: This reminds me a little bit of the question, "When did you stop beating your wife?" This is suggesting that we are planning further cuts to hospitals without any improvements to the health services, and that's quite contrary to what is going on. As a result, I am not going to be able to support it.

1600

The Chair: Further discussion? Ready for the question on number 2? All those in favour? Contrary? I declare number 2 defeated.

Number 3.

Mr Phillips: "The government should establish benchmarks to ensure that any provincial savings that occur as a result of its education changes and school board reorganizations are reinvested in educating our children."

We have been anxiously awaiting the announcement on the funding for school boards. The province now manages the total system. There's lots of evidence that we need additional resources in the classroom, and our concern is that whatever savings might come about as a result of reorganization aren't simply eaten up by trying to fund the tax cut.

The Chair: Further discussion? Ready for the question on number 3? All those in favour? Contrary? I declare number 3 lost.

Number 4.

Mr Phillips: "In spite of a 4.4% economic growth rate in 1997, the government is over 110,000 jobs short of its jobs goal. The budget must address the reality that the tax cut is not creating sufficient jobs and that other solutions are needed, such as ensuring that short-term and long-term educational programs are in place to meet the province's skills gap for high-tech jobs."

Again, I use the government's numbers, and after two and a half years there are 252,000 jobs; that's from June 1995 to the end of December 1997. Half of the 725,000 job target is 362,000 jobs or thereabouts, so the government is running about 110,000 jobs short of its 725,000 job target. Furthermore, as we've talked about in this committee before, there is an opportunity, we think, for focusing on our technology area and our information area to see more jobs created.

Mr Baird: Just a few comments on it. I guess there are four or five issues alluded to in the one recommendation. Certainly on the job front I don't think anyone would expect — it certainly took a while. I use the analogy that it's like turning a cruise ship around. You can't turn on a dime in terms of the full effect of the implementation of a group of policies the government would present to obtain a desired climate for job creation. That's why there was a five-year target, not a month-by-month target. That's the first thing I would say.

The other implication in the recommendation is that the tax cut is the sole job creation policy in the government's economic policy. We know from the testimony of the expert from Nesbitt Burns that the personal income tax cuts have gone a long way towards reviving consumer confidence and spending. The tax cuts are working. Employment conditions have improved considerably, with Ontario generating more than 170,000 net new jobs in 1997, double the 1996 gain. That's from Sherry Cooper of Nesbitt Burns in a presentation she made before the committee.

The tax cut is only one of a number of policies, whether it's repealing job-killing labour legislation, whether it's that we work with the Red Tape Commission, whether it's cutting the employer health tax for small business, whether it's creating the regulatory environment, whether it's better marketing of the province abroad. There's a whole host of government policies and initiatives designed to create that climate that is conducive to job creation. Certainly on the high-tech front that's an area where we are sympathetic, and I think the committee has already unanimously approved one recommendation with respect to high-tech skills.

The Chair: Further discussion? Ready for the question? Number 4: All those in favour? Contrary? Number 4 is lost.

Number 5.

Mr Phillips: "The provincial government must review its plan to burden over $570 million dollars in new costs on to local property taxpayers across the province through its municipal downloading plans. Moving social services to municipalities and failing to address business education property tax inequity are two of the symptoms resulting from the bungled 'Who Does What' process. The implementation has failed on every account to meet the stated goal of simplifying and improving the delivery of any affected service."

I remember very clearly that a year and two months ago Dave Crombie, on behalf of the Who Does What group, sent a letter to the government saying, "We are strongly

opposed to your plans to put social housing and social assistance on property tax and we unanimously" — by the way, this was 14 people who were handpicked by Mike Harris to study this. They unanimously said, "Don't do it." It's been a series of problems ever since. This was supposed to be revenue-neutral and we find out that it's $570 million of added costs to municipalities.

The province said that one of the reasons it was taking over complete responsibility for funding education was to provide fairness, and then we find, as I said earlier, that now the province is setting the tax rates on businesses. We've got, in Orillia, a business paying $15,000 and an identical business in Huntsville paying $5,000 for the provincial education tax; one in Brockville's paying $15,000 and one in Parry Sound's paying $5,000. It's part of this bungled — I hope you don't take offence at that — Who Does What process. By the way, it will be this year, but next year as well when the municipalities are trying to set their property tax rates that they will be indicating where the problem originated.

Mr Baird: Obviously the realignment of responsibilities is a major exercise in public policy, there will be no denying that, but there are a number of things I would want to get on the record. The municipal support grant is being eliminated. The municipalities have known that for a number of years now. The president of the Association of Municipalities of Ontario acknowledged that a number of years ago. With modest savings for that plus the education tax room, there's a total of $645 million in funding being provided in each of the next two years, in addition to the permanent $570 million for the community reinvestment fund, the other CRF. There are savings from OMERS in the neighbourhood of $75 million.

In our own backyard, as an Ontario government, we have found 33% savings on our own overhead. When you put these realistic savings targets into perspective, the Quebec government this year is asking its municipalities to find 6% efficiencies.

There is only one taxpayer and we're certainly interested in working with the municipalities to ensure we get the best results for that one taxpayer, but we are asking them to find in the big picture in many cases modest savings, through the special circumstances fund of $77 million.

The second issue with respect to the inequity of the current tax system: I have a tremendous amount of respect for the member for Scarborough-Agincourt. This is not a tax increase. This is maintaining the inequity that was already there. I think we passed a motion saying that we would like to move to get rid of that. While I have tremendous respect for him, this is not the first inequitable tax system that we've had in Ontario. There was something called the commercial concentration tax, a tax that he voted for, that he actively supported as a Toronto member of the Liberal Peterson government that brought it in. It was a tax that was so bad even the NDP government got rid of it. I've got to remind you of that. It is somewhat ironic you'd make such a big issue of an inequitable tax that we didn't create, when in fact your government was the first government to create such an inequitable tax in the first place.

1610

Despite the significant tax increases and the significant revenue problem the New Democratic Party experienced, at the height of one of the worst recessions since the Depression, even they acknowledged the tremendously devastating and bad effect that tax had on the greater Toronto area. I do think it's important to put on the record that this inequity has existed for some time. The municipalities got themselves into this mess and we certainly want to work with them. I think there's been a significant indication from both the Premier and the Minister of Finance to work with them to resolve that inequity.

It's not going to happen overnight. It'll happen, I'll bet you, demonstrably quicker than the inequity developed. I think those are some important thoughts to put on the record with respect to this recommendation.

The Chair: Further discussion? Ready for the question? Number 5: All those in favour? Contrary? I declare it lost.

Number 6.

Mr Phillips: "The provincial government must act to address the confusion and chaos that will result from its hasty implementation of the largest property tax changes in decades. It is becoming increasingly impossible for the government to address all the problems it will have created by the 'make it up as you go along' property tax reform process it has developed behind closed doors over the past year. The implementation deadlines were unrealistic and were only achieved by neglecting to provide any impact assessments to the public in advance of implementation. The government has a responsibility to respond to both policy and implementation problems in the months to come in order to ameliorate the difficulties that will face businesses, residential property owners, charities, tenants and others."

We talked about this under the NDP proposal, but confusion and chaos are the only way to describe it. It truly is, everywhere but Kitchener, a significant problem.

Mr Wettlaufer: I wonder if it has anything to do with the fact that I look after my constituents.

Mr Phillips: Good for you, Wayne. I think it's a bit unfair to say Al Leach doesn't look after his constituents. I think that's a bit of a low blow. I know he's getting a lot of complaints, but I think it's unfair to say he doesn't care about his constituents.

As I say, whether it be on businesses that the province has responsibility — I might add that we now have a uniform mill rate on education for residences. You know how that was done. It was by using provincial funds to balance it off, they said. That was the starting point on the announcement in the middle of December: "We'll have a uniform mill rate residentially." Those who were paying too much on their residences were fixed. For those whose rates were too high, where they'd been asked to pay too large a burden for education in residential, that was fixed through $600 million of provincial money.

But the government, in my opinion, just made a mistake. I think in December, and I said this, it should have dealt with the downloading, it should have dealt with the uniform mill rate residentially, it should have dealt with the property taxes on businesses and it should have dealt with the $600-million funds. It dealt with three of them, but not the fourth. Now we're left with, frankly, a heck of a mess.

I find it's going to be really challenging once all of our taxpayers get their bills and then start comparing them and phone their friends in another business a few miles away and say: "How much is your business evaluated at?" "Well, mine's evaluated at $%500,000." "So is mine?" "What are you paying for provincial education taxes?" "I'm paying $15,000." "Oh, I'm paying $5,000." "Wait a minute, I thought this was all fair and equitable."

I'm just saying that the government chose, where people were paying too much on their residences, to bring it down. How was it brought down? Provincial money. But if you're paying too much on your businesses, the province frankly ignored it, or forgot it or something happened.

We talked a lot about the employer health tax and we talked a lot about actually reducing the rate on EI, employment insurance. Both of those things are important but pale in comparison to the property tax increases, because if you talk to small businesses, they'll say, "My biggest single expense is property taxes." Taking the business occupancy tax off — repeating what we said earlier today — and putting it on to the realty taxes is driving property taxes up by about 10%.

Mr Kwinter: I just want to add one comment. My colleague and I met with some people in the printing industry a little while ago, and I found it quite startling to hear testimonials to the fact that some of these businesses now, as a result of this government's initiative, are paying more in realty educational property taxes than they are paying rent. When you hear that, you say, "Something has gone amiss," where that happens. These are non-partisan people. They're just businessmen who are saying, "Something has to be addressed here." The Minister of Finance has acknowledged there's a problem, and all we're saying is, "Let's address it and let's get it done."

The Chair: Further discussion? Are we ready for the question in number 6? All those in favour? Contrary? I declare 6 lost.

Number 7.

Mr Phillips: "The provincial government, as part of its annual budget, should establish quality-of-life indicators to measure the physical and social health of people living in Ontario. The results of this survey process should be then used to define and publicize realistic targets for reductions in our province's human deficit, including areas affecting children's health and care, education, our overall health care system and other performance goals regarding the care and opportunities we want to ensure all Ontarians deserve."

I was struck by one of our presenters who said that Alberta had some good standards, and our research officer, Mr McLellan, got those quality-of-life indicators from Alberta. I thought they were actually quite helpful. I think we should be incorporating them. I'll just read a bunch of them, because they've been doing it since 1996, and they report on it annually, obviously.

Literacy and numeracy skills for young Albertans, family income distribution, the number of Alberta families with incomes less than $20,000, job creation, days lost to disputes, violent crime rates, air quality — no days of poor air quality reported in 1996; that was their measurement standard — land quality, downstream water quality, serious youth crime, waiting times for cardiac surgery, length of stay in emergency, public perceptions on ease of access. I think they've got 23 core performance measurements that are related to 18 government goals. I just think it's a good idea.

Mr Arnott said earlier, "Why hasn't it taken place in the past?" I frankly don't know why it hasn't taken place in the past, but just because it hasn't taken place in the past doesn't mean it's not a good idea. I dare say governments of every political stripe want to avoid hard measurements of their performance, but certainly the Alberta government has shown it can be done, and it can be done on a broad cross-section of measurements. If we "believe government should be held accountable," and things like that, these things are clearly worth pursuing.

Mr Baird: This is certainly an interesting suggestion. I recall the one gentleman who raised it. I question whether the budget is the annual place to put it as an economic document. I know one of the principal exercises in terms of the administration of the government has been the business planning process that the various ministries and agencies go through on an annual basis now to adopt the appropriate accountability and performance measures. A good number of these performance measures are very specific and have quantitative indicators. If you look at the performance measures contained in the business plans which are released annually — we're going through our third exercise this year — they're getting better every year, would be the way I would put it. We would hope to see them develop into a mature part of the political process.

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I think as a government you want to encourage many evaluations of its success. The Provincial Auditor has done a lot of that, judging the provincial government's program results and evaluations. I don't have the benefit of having read the information you obtained from Alberta, but many such indicators in some of the areas you raised are actually in our business plan and performance measures. For example, the recidivism rate for parolees while they are on parole in Ontario is down to 2.3% or 2.1% where 5% is considered a good benchmark. It's down considerably in the last two, two and a half years.

There is a whole host of other performance measures with respect to education, now that we're measuring student achievement, to be able to quantitatively set goals for ourselves. We've brought in grade 3 testing and there's a new K-to-grade-8 curriculum. We'd like to be able to measure the effectiveness of that in the system, the grade 3

testing. In three years' time we should be able to get the full benefit of seeing how helpful the curriculum has been in that part of the process.

I have a concern. I don't have the benefit of the outside research you've done with respect to the situation in Alberta. However, the provincial budget is perhaps not the best place for that but rather the annual business plans that are tabled annually with the estimates, I believe. With those business plans are very exact performance measures that do, as I mentioned, have specific quantitative indicators and a good number of them.

Mr Phillips: Just on the point of where they should be, I actually went back and read some of the old pre-budget consultations. Of course, this was when you just had 20 members, but it was the recommendation of the then opposition Conservatives that it should be part of the budget. You may want to go back, but of course that was when you only had 20 members. If you read the pre-budget 1993 or 1994 Conservative recommendation, it was that measurements like this should be in the budget. That's where I got the idea.

Mr Baird: The ideas have good sense, I guess. We're not always narrowly set in a particular path. We're certainly open to work within our commitment. We don't say, "It's going to be this way and only this way." We're open to find the best way of doing things.

Mr Phillips: Well, you've got a lot more members now.

Mr Baird: More members, more ideas. The better route in our judgement has been through the business planning process and to put the performance measures, which I think are appropriate, for the public to make an evaluation.

Looking at the safety of our roads, in last year's business plan the Ministry of Transportation had some excellent indicators with radar performance. As one area, hopefully we'll be able to get a good sense over the next five or 10 years of the effectiveness of the drunk driving changes that were introduced in the Legislature last July.

The Chair: Any further discussion? Ready for the question on number 7? All those in favour? Contrary? Lost.

Mr Phillips: "Defeated" is better than just "lost."

The Chair: That completes the recommendations.

Mr Baird: Given the discussion that we had between all three parties just before we broke for lunch, I'd like to move the following motion:

I move that the final report signed off by all three caucuses be adopted, translated and printed, and that the Chair be authorized to present the report to the House.

I further move that a confidential advance copy of the report be presented to the Minister of Finance.

The explanation of the first part would be that if the three parties, which I have every belief we'll have no trouble doing, can authorize the changes that legislative research can conduct, the Chair be authorized to undertake the necessary arrangements to have the report printed.

The second part I didn't appreciate the importance of before, but obviously the input and information contained in the report would be of significant use to the minister. I would like him to get a copy sooner rather than to wait until some time in April. If he could get it sooner than that, obviously it would be of greater input as he considers measures for the next budget.

The Chair: Comments?

Mr Phillips: We're disappointed that our recommendations weren't adopted so we may be —

Interjection: Morally outraged.

Interjection: You guys are doing a minority report, right, Gerry?

Mr Phillips: You read my mind. I just want to get the timing down. For us, probably roughly two weeks from now I think we could have our report in, at 5 o'clock on that Monday, which is March 23.

Mr Baird: Do I have a chance to edit the minority report?

Mr Silipo: We'll give you another chance to take up any recommendations on further reflection.

The Chair: Two weeks from today at 5 o'clock. Is that satisfactory? Agreed.

Mr Silipo: I presume that wouldn't preclude the Minister of Finance still receiving an advance copy of this, if Mr Baird thinks he should get it before then.

Mr Baird: I didn't have a full appreciation and I was informed. I don't want him just to get a copy, I want him as well to be seen to get a copy, and I would hate for someone to tune into the legislative channel 10 days or two weeks before the presentation of a budget, if it happened to go that late, that he was only then getting the recommendations when likely some of the key decisions would have already been made. I know we want him to receive the information but as well to be seen to receive the information.

Mr Phillips: They may still be preparing it, even without our report.

Mr Silipo: They may not wait for our report.

Mr Baird: I can assure you —

The Chair: Then again, they might be doing it the night before.

Mr Baird's motion has two aspects to it. Are we ready for the question? All in favour? Carried.

We have agreed to two weeks to file the minority reports, if any.

Clerk of the Committee: Dissenting.

The Chair: Dissenting, not minority. My apologies. Any other business before the committee?

Mr Baird: Just to clarify the discussions we had just before the break, we had discussed with the clerk and research the potential of getting the report later this week and then having until a set time when the three caucuses could look at it and then try to sign off on it. I don't know whether they wanted to raise that now or get back to us when they've got the report ready.

Mr McLellan: We had a discussion about an appropriate time and I suggested an appropriate Wednesday, but if we get it to you by late Wednesday or early Thursday, is that all right? If there are specific concerns or deadlines you're working against, I should know that.

Mr Silipo: If research folks need a little longer, given that we're giving ourselves a couple of weeks to do the dissenting opinions, I would think that even if by this time next week, it should still give us enough time. It's a question of us just vetting the changes that have been made. I don't think it'll be a problem.

The Chair: Let's point to this week and give us the weekend to digest it.

Mr Baird: I'm in the hands of research. You've worked very hard to get this to us now and you've done a fantastic and excellent job. I thank everyone for all their efforts. I don't want to put an unnecessary deadline on you if you feel it's going to cause any strain.

The Chair: I don't think you need the time restraint anyway. If we can have it Wednesday, we'll get it Wednesday. If it takes till Thursday, we'll take it Thursday.

Mr McLellan: I'll undertake to have the recommendations inserted into the document in the appropriate spot at the end. Over the years the committee has undertaken to indicate after the recommendations whether or not they have been unanimous. Whether you would want to do that in 1998 or not, I don't know.

Mr Phillips: I don't think we did it in 1997.

Mr McLellan: I think it might have been back in 1996 when Elaine Campbell was on it. I just raise it because it's something that's happened before and if I didn't raise it, you'd say, "Why didn't you raise it?" If the committee wants to indicate that or not —

Mr Phillips: I'd do it the way we did it last year.

Mr Baird: I have no objection to that.

Mr McLellan: I had a couple of other points.

Just so I know when I'm preparing these final changes, there was discussion about harmonization under retail sales tax and there was a question about whether or not the Ontario Trucking Association had addressed this issue; in fact, they had. We checked that at noon, just so you know that. We'll leave it as it is.

The other point Mr Phillips had raised was with respect to Mr Eves's comments on the uniform business tax rate. On February 10 he addressed that subject. I think essentially what we've said on the top of page 15 still holds. We may clarify it by making specific reference, put in the word "business," because we had "commercial/industrial" tax rates. I think we should add the word "business" in there. If that's appropriate, I'll do that.

If anybody wants to see the direct quote on the 10th we're talking about, I can show that to you; or if you want me to read it, I can.

The Chair: No need.

Mr McLellan: Okay, we'll clarify that.

The Chair: Any other business?

We're adjourned, then, to the call of the Chair.

The committee adjourned at 1631.

ERRATUM

No.	Page	Column	Line	Should read:
F-61	F-2085	2	42	for a cumulative total of the income tax cuts of $20.9 billion

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